



# **City of Charlotte, Michigan Eaton County, Michigan**

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**Comprehensive Annual Financial Report  
Prepared by the Office of Finance and Treasury  
Year Ended June 30, 2008**

# City of Charlotte, Michigan

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# City of Charlotte, Michigan

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## **Introductory Section**

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# *City of Charlotte*

*111 E. Lawrence Avenue  
Charlotte, Michigan 48813*

*517-543-2750  
Fax 517-543-8845*

November 10, 2008

To the Honorable Mayor,  
Members of the City Council,  
Interim City Manager Gregg Guetschow, and the  
Citizens of the City of Charlotte

The comprehensive annual financial report of the City of Charlotte for the year ending June 30, 2008, is hereby submitted as mandated by both local ordinances and State statutes. These ordinances and statutes require the City of Charlotte to annually issue a report on its financial position and activity, and that this report be audited by an independent firm of certified public accountants. Responsibility for both the accuracy of the data as well as the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the City of Charlotte. All disclosures necessary to enable the reader to gain an understanding of the City of Charlotte's activities have been included.

## **THE REPORTING ENTITY AND ITS SERVICES**

The City of Charlotte is located in the heart of Michigan, 18 miles southwest of the capital city of Lansing. The City currently has a land area of approximately 5 ½ square miles and an estimated population of about 8,700. Charlotte is the hub of three interstate highways: Interstates 69, 96 and 94. These highways provide excellent access to all major markets in Michigan, the Mid-West and Canada.

Only 200 years ago, the land on which the city is located was an overgrown prairie with an abundance of wild flowers, inhabited by Chippewa and Pottawatamie Indians. Indian paths crisscrossed the area and one trail became the preferred route for early pioneers. Running from Detroit to Grand Rapids, settlers named it Clinton Trail; today it is known as state highway M-50. The pioneer settlement located in the middle of Eaton County was incorporated as a village in 1863. Railroads brought growth to Michigan and Charlotte grew as well. Charlotte was incorporated as a city in 1871. Several beautiful homes and buildings in the downtown area, which still survive today, characterize the growth of the city. E.B. Bostwick, an early landowner, held the contract for all of Eaton County and suggested the city be named for his new bride, Charlotte (pronounced Shar-LOT).

The City's most notable attributes are its outstanding schools and parks; the Eaton County government complex; the Hayes Green Beach Memorial Hospital and specialty clinics facility; and the developing Combs industrial park, which consists of 190 acres. Seven manufacturing facilities and one warehousing facility currently occupy this industrial park.

The City provides a full range of municipal services as established by statute or charter. These services include police and fire protection, water and sewer utility services, the construction and maintenance of roads, streets and infrastructures, recreational activities and general administrative services.



For financial reporting purposes, this report includes all the funds of the City of Charlotte, as well as its component units. Component units are legally separate entities for which the primary government is financially accountable. The City of Charlotte Downtown Development Authority (DDA) and the Local Development Financing Authority (LDFA) are reported as discretely presented component units. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations, and cash flows from those of the primary government. The City's Building Authority is reported as a blended component unit. Although blended component units are legally separate, they are reported as if they are part of the primary government. The primary purpose of the City's Building Authority is to finance and construct the City's public buildings.

### **ECONOMIC CONDITION AND OUTLOOK**

The City council was pro-active in using conservative budgeting practices in an effort to maintain healthy fund balances. In developing the 2008/2009 fiscal year budget, the impact of a slowing national economy, perpetually increasing health care costs, rising gas and utility costs, as well as potential State of Michigan budget cuts were taken into account. In addition, one full time patrol officer position was eliminated.

Housing stock is being upgraded through both voluntary measures and code enforcement efforts. Although the City has experienced a slowdown of residents in the past year, we continue to realize a small amount of economic growth through commercial efforts. New developments currently under construction or anticipated to begin in FY 08/09 include: a new CVS store on South Cochran road, a new dentist office on Lansing road and renovation of the old Felpausch store on West Lawrence avenue by Hayes Green Beach Hospital.

The City maintains strong leadership through both its City Manager and department heads. The City's leadership team has over 100 years of combined public service experience and is ready to solve any challenge presented.

### **MAJOR INITIATIVES**

The City is recognized as a growing and progressive community in the Lansing region and receives positive media coverage in the Charlotte Shopping Guide, The County Journal and Lansing State Journal. Economic development is actively encouraged, as demonstrated by the steady growth during the past ten years.

Following are highlights of some of the City's major projects recently completed or planned for the future:

***West Side Fires Station*** – Construction of a second fire station on the west side of the city began in the Spring of 2008. The project is being funded through proceeds received from the \$3 million sale of G.O. bonds approved by voters through millage proposal on the November 2007 ballot. The project is scheduled to be completed in December 2008.



**Street Improvements** – The City completed the reconstruction of Reynolds road during the year. The total cost for the project was \$585,290. In addition, the City was awarded a \$2.0 million Economic Development Grant from the Michigan Department of Transportation for the reconstruction of West Shepherd street. Work on this project began in July 2008 and is scheduled to be completed in December 2008. The projected total cost of the project is \$2.5 million with a local match of \$0.5 million.

**Sidewalk Improvements** – Sidewalk repairs/construction totaling \$60,420 were completed during fiscal year 2007/2008. In addition, \$77,610 is appropriated in the 2008/2009 fiscal year budget for sidewalk repairs, maintenance and construction.

**Parks and Recreation** –The local Rotarians completed construction of a pavilion at Dean Park which was donated to the city during the fiscal year. In FY 08/09 the city has budgeted \$20 thousand to match grant funds for a handicapped-accessible playground project.

The City administration remains customer focused and is pro-active in meeting customer needs. Through participation in several community functions and activities, the fire and police departments continued their outreach to the residents of Charlotte.

### **ACCOUNTING SYSTEM AND BUDGETARY CONTROL**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprise funds and internal service funds are maintained on the accrual basis. Assets used in governmental fund type operations and long-term liabilities expected to be financed from governmental funds are accounted for at the government-wide level, not in the governmental funds.

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that these objectives will be met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state, and local financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control is subject to periodic evaluation by management of the City and the external-independent audit staff retained by the City for required periodic audits.



The City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council.

Activities of the general fund and special revenue funds are included in the annual appropriated budget. Project-length budgets are prepared for capital projects funds, if any. The level of budgetary control (i.e. the level at which expenditures cannot legally exceed the appropriated amount) is the functional level within each fund.

### **GENERAL GOVERNMENTAL FUNCTIONS**

REVENUES and other financing sources for general governmental functions (the General, Special Revenue, Debt Service, and Capital Projects Funds) totaled \$9.29 million during the fiscal year ended June 30, 2008, an increase of 51.75% from the preceding year. The amounts received from various sources and representative percentages are shown below:

<i>Revenues and sources</i>	<i>other</i>	<i>Amount</i>	<i>Percent of Total</i>	<i>Increase (decrease) from prior year</i>	<i>Percent of increase or decrease</i>
Taxes and assessments		\$3,098,286	33.35%	\$144,609	4.90%
Licenses and permits		115,929	1.25%	25,864	28.72%
Intergovernmental		2,134,738	22.98%	131,825	6.58%
Charges for services		273,285	2.94%	43,584	18.97%
Fines and forfeits		33,183	0.36%	1,651	5.24%
Other revenue		310,877	3.35%	(72,829)	-18.98%
<b>Total revenues</b>		<b>\$5,966,298</b>	<b>64.22%</b>	<b>\$274,704</b>	<b>4.83%</b>
	<b>Other sources</b>	<b>3,323,912</b>	<b>35.78%</b>	<b>2,893,356</b>	<b>672.00%</b>
<b>Total revenues and other sources</b>		<b>\$9,290,210</b>	<b>100.00%</b>	<b>\$3,168,060</b>	<b>51.75%</b>

The largest source of local revenues was, once again, general property taxes and assessments, which increased from \$2.95 million in fiscal year 2006/2007 to \$3.09 million in fiscal year 2007/2008. These taxes, which include real and personal property levies, produced \$144,609 more in fiscal year 2007/2008 than in fiscal year 2006/2007 as a result of an increase in residential and commercial property taxable values. The increase in "licenses and permits" is attributable to both the Eaton County jail expansion project and the west side fire station construction project. The large decrease in "other revenue" is the result of the city starting to collect Sugar Mill apartment's payment-in-lieu-of-taxes (PILOT) last year. In addition, an decrease in interest rates resulted in an decrease in interest income.

### GENERAL GOVERNMENTAL FUNCTIONS (Continued)

EXPENDITURES and other financing uses for general governmental functions (the General, Special Revenue, Debt Service, and Capital Projects Funds) totaled \$7.49 million during the fiscal year ended June 30, 2008, an increase of 22.59% from the preceding year. Expenditures and other uses for the major functions of the City are recorded as follows:

<i>Expenditures and uses</i>	<i>other</i>	<i>Amount</i>	<i>Percent of Total</i>	<i>Increase (decrease) from prior year</i>	<i>Percent of increase or decrease</i>
General government		\$603,192	8.05%	\$52,988	9.63%
Public safety		3,885,138	51.85%	1,373,649	54.69%
Public works		1,258,963	16.80%	(81,049)	-6.05%
Recreation & culture		249,435	3.33%	74,043	42.22%
Community & economic development		337,074	4.50%	(320,741)	-48.76%
Capital outlay		688,516	9.19%	364,074	112.22%
Debt Service		169,257	2.26%	23,851	16.40%
<b>Total expenditures</b>		<b>\$7,191,575</b>	<b>95.98%</b>	<b>\$1,486,815</b>	<b>26.06%</b>
Other uses and transfers		301,165	4.02%	(106,020)	-26.04%
<b>Total expenditures and other uses</b>		<b>\$7,492,740</b>	<b>100.00%</b>	<b>\$1,380,795</b>	<b>22.59%</b>

The start of construction on the west side fire station during the year resulted in the significant increase in public safety expenditures for the year. A \$450 thousand one-time CDBG grant was received in the prior fiscal year resulting in the significant decrease in community & economic development expenditures. Capital outlay expenditures Re-construction of Reynolds Road in the Major Street Fund at a cost of \$580 thousand accounted for the substantial increase in capital outlay over the prior year.

FUND BALANCES of the General, Special Revenue, Debt Service and Capital Project Funds totaled \$4.73 million as of June 30, 2008. Total fund balance of the General Fund stands at \$1.73 million; with the Special Revenue and Debt Service Funds at \$3.00 million and \$2,360 respectively. The General Fund's unreserved-undesignated fund balance of \$1.22 million represents 24.5% of the General Fund's 2008/2009 fiscal year budgeted non capital expenditures.

### ENTERPRISE FUNDS

The City's enterprise operations are comprised of the water supply and sewage disposal system, and the recycling center. The primary purpose of the enterprise funds is to account for operations that are financed and operated in a manner similar to private business enterprises. The intent is that the costs (including depreciation) of providing services to the general public on a continuing basis, be financed or recovered primarily through user charges. It is also intended, under current City Council policy, that utility rates be sufficient to make any debt service for debt incurred to replace, expand, or improve the utility system infrastructure.

The Water Supply and Sewage Disposal Fund recorded a minimal increase in net assets of \$18 thousand for fiscal year 2007/2008. The fund had net working capital of \$564 thousand and unrestricted cash and investments totaling \$620 thousand as of June 30, 2008.



## **RISK MANAGEMENT**

Under a comprehensive plan of risk management, the City maintains property, liability, and workers compensation insurance coverage through the Michigan Municipal League Property and Liability Pool and other commercial carriers. The City currently has self-insurance programs for employee short-term disability, eye care reimbursement, third party administered Blue Cross/Blue Shield deductible, and third party administered prescription purchase.

The City has adopted general safety policies and guidelines, with supplemental guidelines adopted by most City departments. Safety committees are in place in each department, with oversight by a general safety committee comprised of all City department heads and the manager. The committees hold training sessions, review specific risks, and review incident reports with recommendations for correction as a follow-up. City administration also holds mandatory safety and voluntary wellness programs each year.

## **CASH MANAGEMENT AND INVESTMENTS**

The City is conservative in its approach to cash management with a realization that there is a time-value to money. A high priority has been placed on procedures to ensure that all monies due the City are collected and deposited as promptly as possible. Disbursements are closely controlled and wire transfers are used whenever appropriate.

Of equal importance is the emphasis on investment portfolio management. Investments of temporarily idle funds are invested in certificates of deposit with maturities ranging from 30 to 180 days depending on when the money is needed. The City pools the cash of various funds, except in certain restricted and special accounts, to maximize interest earnings. These investments are consistent with the City's policy to minimize credit and market risk while maintaining a competitive yield on its portfolio.

## **INDEPENDENT AUDIT**

State statutes require an annual audit by independent certified public accountants. The firm of Plante & Moran, PLLC was selected by the city council to conduct the required audit.

## **AWARDS**

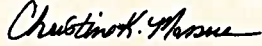
The City of Charlotte has been presented the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the year ended June 30, 2007. In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report that satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report will also meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine eligibility for a certificate.

### **ACKNOWLEDGEMENTS**

I want to thank my Deputy Treasurer for her efforts in preparing this report and various other city staff for their cooperation and assistance throughout the past year. I also appreciate the support extended by the City Manager, Mayor and City Council.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Christine K. Mossner".

Christine K. Mossner, C.P.A., J.D.  
Finance Director

# City of Charlotte, Michigan

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## List of Elected and Appointed Officials June 30, 2008

### City Council:

Mayor	Deb Shaughnessy
Mayor Pro-Tem	Deleski Smith
Trustee	Mary Jean Baker
Trustee	Kevin Weissenborn
Trustee	Tim Lewis
Trustee	Bill Arnold
Trustee	Heather Spielmaker

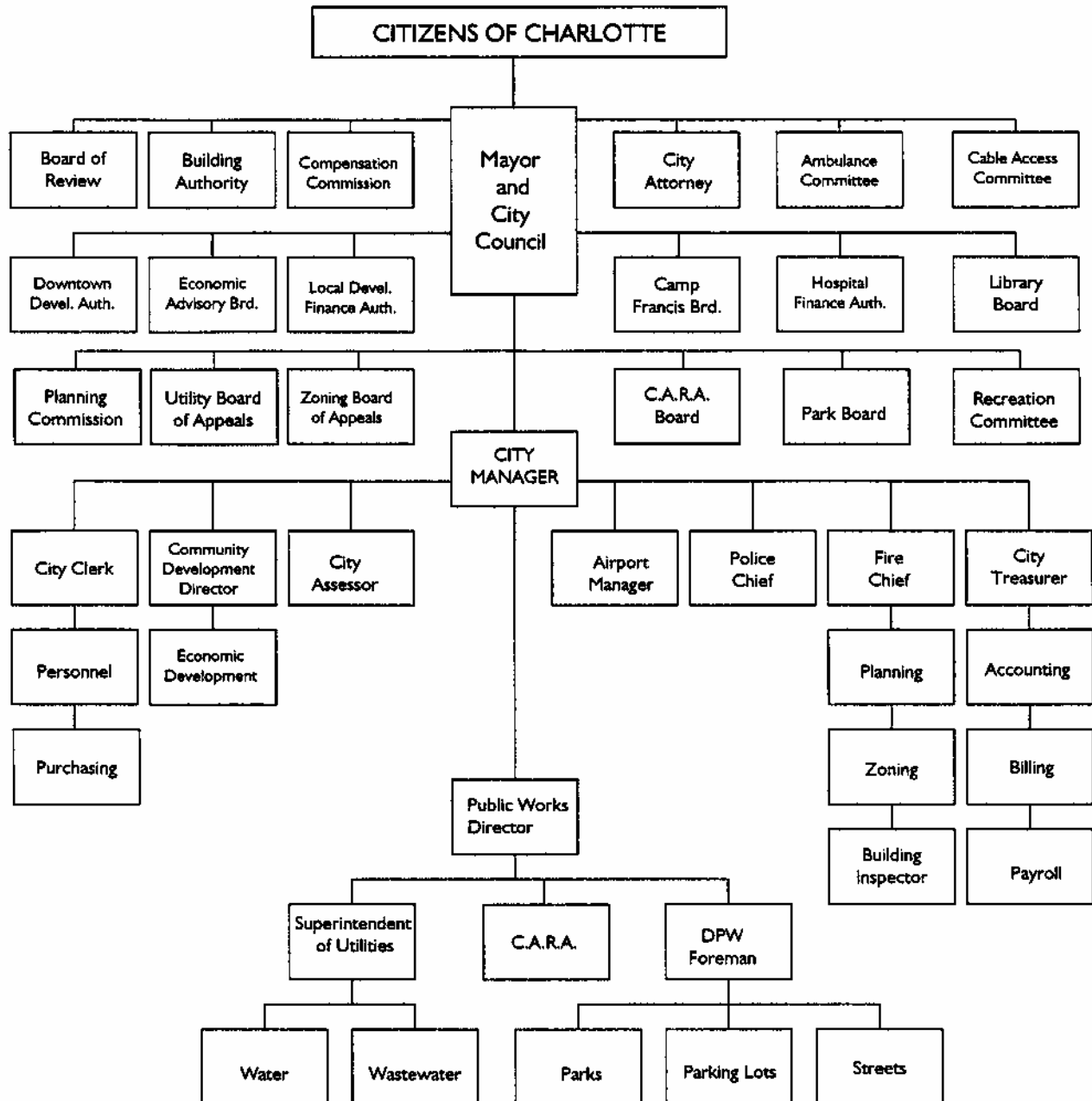
### Appointed Officials:

City Manager	Gregg Guetschow
Fire Chief	Kevin Fullerton
Assessor (Contract)	Randy Jewell
Clerk	Michelle King
Finance Director	Christine Mossner
Director of Public Works	Amy Schoonover
Police Chief	Bill Callahan



# City of Charlotte, Michigan

## Organizational Chart



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Charlotte  
Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in cursive script, reading "Charles S. Cox".

President

A handwritten signature in cursive script, reading "Jeffrey R. Emer".

Executive Director

## **Financial Section**

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## Independent Auditor's Report

To the City Council  
City of Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Charlotte, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Charlotte, Michigan's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Charlotte, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The management's discussion and analysis and the budgetary comparison schedules for the General Fund and Major Streets Fund, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The budgetary comparison schedules, combining balance sheet, and combining statement of revenue, expenditures, and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the City Council  
City of Charlotte, Michigan

We have applied certain limited procedures to the management's discussion and analysis, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Plante & Moran, PLLC*

November 10, 2008



# City of Charlotte, Michigan

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## Management's Discussion and Analysis

The following discussion and analysis of the City of Charlotte, Michigan's annual financial report presents our view of the City's financial performance during the fiscal year that ended June 30, 2008. Please read it in conjunction with the City's financial statements, which follow beginning on page 11.

### Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$32.0 million (net assets). Of this amount, \$2.7 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

During the year, the City received \$9.3 million in revenues and \$9.0 million in expenses, resulting in an increase in net assets of approximately \$0.3 million. Of the City's \$9.0 million expense total, \$3.0 million related to business-type expenses and the balance of \$6.0 million related to governmental activities.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$4.7 million, an increase of \$1.8 million from the prior year. Approximately 88.4 percent of this amount is available for spending at the government's discretion (unreserved/undesignated fund balance). The remaining 11.6 percent has been reserved and/or designated.

At the end of the current fiscal year, unreserved undesignated fund balance for the General Fund was \$1.2 million or 27.2 percent of the General Fund's total expenditures.

### Overview of the Financial Statements

This annual report consists of the following report sections: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds and internal service funds. The basic financial statements are presented in two different formats: government-wide financial statements and fund financial statements.

The government-wide financial statements include the statement of net assets and statement of activities. These statements provide both long-term and short-term information about the City's overall financial status.

The fund financial statements include the balance sheet and statement of revenue, expenditures, and changes in fund balances. These statements focus on individual parts of the City government and report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

# **City of Charlotte, Michigan**

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## **Management's Discussion and Analysis (Continued)**

The governmental fund statements tell how general government services, like public safety, were financed in the short term as well as what remains for future spending.

The proprietary fund statements present short- and long-term financial information about those activities that the City operates in a business-like manner, such as the water supply and sewage disposal systems.

The fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information presented in the financial statements. In addition to these required supplementary schedules, we have provided a section with combining statements that provide details about our nonmajor governmental and Internal Service Funds.

### **Government-wide Statements**

The City's government-wide statements begin on page 11 of this report. These statements report information about the City as a whole under the accrual method of accounting, which is similar to the accounting used by most private sector companies. The statement of net assets includes both current and long-term assets and liabilities and the statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The combined objective of the government-wide statements is to report the City's net assets and how they have changed. The reporting of net assets is one way to measure the City's financial position.

The City's government-wide financial statements divide the reported information into three categories:

- Governmental activities - Most of the City's basic services are included here, such as police, fire, public works, recreation, and general services. Property taxes, state revenue sharing, and federal grants are used to finance most of these activities.
- Business-type activities - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water supply and sewage disposal systems are included in this category.
- Component units - The City includes other legal entities in its report such as the Downtown Development Authority, Tax Increment Financing Authority, and Brownfield Redevelopment Authority. The City is financially accountable for these "component units" although they are legally separate entities.

# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

### Fund Financial Statements

The City's fund financial statements begin on page 14 of this report. These statements provide more detailed information about the City's most significant funds. The City uses funds to account for specific sources of funding and spending for particular purposes. Some funds are required by state law or bond covenants and others are established to control and manage money for particular purposes.

The City has three fund types that use different accounting approaches:

- Governmental funds - Most of the City's basic services are included in governmental funds. These funds focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end available for spending. These funds are reported using the modified accrual accounting method that measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Because governmental fund information has a short-term focus and the government-wide statement incorporates long-term information, we reconcile the differences at the bottom of the governmental funds balance sheet and in the reconciliation of the statement of revenue, expenditures, and changes in fund balances of governmental funds to the statement of activities.
- Proprietary funds - When the City charges customer fees for the services it provides, the fees are generally reported in proprietary funds. Similar to the reporting method used on the government-wide statements, proprietary funds provide both long- and short-term financial information.
  - The City's Enterprise Funds (Water Supply and Sewage Disposal Fund, and Recycling Fund) are the business-type activities reported in the government-wide statements. More detail about these funds is provided in the proprietary funds statements.
  - We use an Internal Service Fund (the other type of proprietary fund) to report equipment rental services to the City's other programs and activities, which is reported in the Motor Vehicle Pool Fund.
- Fiduciary funds - The City acts as a collection agent for certain other taxing jurisdictions such as the schools and county. The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose. A separate statement of fiduciary assets and liabilities is presented on page 20 of this report. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

### Financial Analysis of the City as a Whole

The City's combined net assets increased from \$31.7 million to \$32.0 million. The following table illustrates the varying results of the governmental activities and business-type activities that combine to capture the City's total net assets.

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
	(in thousands)					
Current assets	\$ 6,137	\$ 3,698	\$ 2,275	\$ 2,285	\$ 8,412	\$ 5,983
Noncurrent assets	19,137	17,968	16,877	17,280	36,014	35,248
Total assets	25,274	21,666	19,152	19,565	44,426	41,231
Current liabilities	1,070	600	767	734	1,837	1,334
Long-term liabilities	4,187	1,315	6,382	6,863	10,569	8,178
Total liabilities	5,257	1,915	7,149	7,597	12,406	9,512
Net assets:						
Invested in capital assets -						
Net of related debt	17,429	16,888	9,985	9,927	27,414	26,815
Restricted	1,026	1,078	906	846	1,932	1,924
Unrestricted	1,562	1,785	1,112	1,195	2,674	2,980
Total net assets	<u>\$ 20,017</u>	<u>\$ 19,751</u>	<u>\$ 12,003</u>	<u>\$ 11,968</u>	<u>\$ 32,020</u>	<u>\$ 31,719</u>

A substantial portion of the City's net assets (85.6 percent) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related outstanding debt used to acquire those assets. Such assets are used to provide services to the citizens of Charlotte and are therefore not available for future spending.

The City's governmental activities net assets increased by 1.3 percent to \$20.0 million during the fiscal year. This increase is due to revenues exceeding expenses for the year. Net assets of our business-type activities remained constant at \$12.0 million.

# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

The following table displays the City's changes in net assets:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
	(in thousands)					
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 834	\$ 767	\$ 2,998	\$ 3,097	\$ 3,832	\$ 3,864
Operating grants and contributions	684	487	55	24	739	511
Capital grants and contributions	194	14	-	205	194	219
General revenue:						
Property taxes	3,129	2,919	-	-	3,129	2,919
State-shared revenue	1,040	1,043	-	4	1,040	1,047
Unrestricted investment earnings	160	178	67	83	227	261
Transfers and other revenue	197	190	(17)	(18)	180	172
Total revenue	6,238	5,598	3,103	3,395	9,341	8,993
<b>Program Expenses</b>						
General government	636	607	-	-	636	607
Public safety	2,836	2,648	-	-	2,836	2,648
Public works	1,847	1,790	-	-	1,847	1,790
Community and economic development	345	643	-	-	345	643
Recreation and culture	257	210	-	-	257	210
Interest on long-term debt	51	55	-	-	51	55
Trash and recycling	-	-	47	45	47	45
Water and sewer	-	-	3,021	2,889	3,021	2,889
Total program expenses	5,972	5,953	3,068	2,934	9,040	8,887
<b>Change in Net Assets</b>	<b>\$ 266</b>	<b>\$ (355)</b>	<b>\$ 35</b>	<b>\$ 461</b>	<b>\$ 301</b>	<b>\$ 106</b>



# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

- The cost of all governmental activities this year was \$6.0 million.
- The amount that City taxpayers paid for these activities through City taxes was \$3.1 million.
- Some of the cost (\$1.7 million) was paid by the beneficiaries of the program's activities or by other governments and organizations that subsidized certain programs with grants and contributions.
- The City's governmental activities revenues are comprised predominantly of property taxes and state-shared revenue (50.2 percent and 16.7 percent respectively). The City has minimal control over either of these revenue sources. The City's ability to raise property tax revenue is limited by the levying constraints of both Proposal A and the Headlee amendment. In addition, state budgetary constraints have resulted in the legislature freezing state revenue-sharing amounts at the prior year's levels.
- A combined 78.4 percent of the City's governmental activities expenses are for "public benefit" services such as fire protection, police protection, and City street maintenance and construction.

### Business-type Activities

The City's business-type activities of water supply, sewage disposal, and recycling for the year essentially broke even with operating revenues of \$3.1 million, operating expenses of \$2.7 million, and net nonoperating expenses and transfers of \$0.3 million, resulting in a modicum net income of \$35,000 for these operations.

### Financial Analysis of the City's Funds

As the City completed the year, its governmental funds (see the balance sheet presented on page 14) reported a \$1.8 million combined fund balance increase to \$4.7 million. This 61 percent increase is solely attributable to the \$1.8 million fund balance of the Capital Project Building Fund. These funds will be used for completion of the west-side fire station during the next fiscal year.

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The Water Supply and Sewage Disposal Fund realized minimal growth in net assets of \$17,800 and unrestricted net assets at the end of the year of \$1.1 million. The Recycling Fund had an increase in net assets of \$17,300 for total unrestricted net assets at year end of \$37,500.

# City of Charlotte, Michigan

## Management's Discussion and Analysis (Continued)

### General Fund Budgetary Highlights

Differences between the original budget and the final amended budget resulted in a 2.3 percent increase in appropriations of \$105,000. This increase is attributable to the appropriation needed to accommodate expenditures associated with facility improvements made at the City airport. These facility improvements were not anticipated during the original budget process but arose when the City took over operation of the airport from the contracted fixed based operator (FBO). The City contracted with a new FBO in early 2008.

### Capital Assets

At June 30, 2008, the City had invested approximately \$36.0 million in a broad range of capital assets, including police and fire equipment, buildings, computer equipment and software, parks and recreational facilities, roads, sidewalks, parking lots and water and sewer lines. (See Table below):

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 1,926,376	\$ 1,846,376	\$ 104,995	\$ 104,995	\$ 2,031,371	\$ 1,951,371
Construction in progress	1,316,803	64,765	-	-	1,316,803	64,765
Infrastructure	23,597,300	22,897,267	-	-	23,597,300	22,897,267
Buildings and improvements	2,747,990	2,703,800	26,811,410	26,592,016	29,559,400	29,295,816
Vehicles	2,190,228	2,117,994	-	-	2,190,228	2,117,994
Equipment	2,688,254	2,714,056	-	-	2,688,254	2,714,056
Subtotal assets	34,466,951	32,344,258	26,916,405	26,697,011	61,383,356	59,041,269
Accumulated depreciation	15,329,785	14,375,812	10,039,023	9,417,331	25,368,808	23,793,143
Net capital assets	<u>\$ 19,137,166</u>	<u>\$ 17,968,446</u>	<u>\$ 16,877,382</u>	<u>\$ 17,279,680</u>	<u>\$ 36,014,548</u>	<u>\$ 35,248,126</u>

Construction in progress (CIP) includes the engineering and design costs for the Shepherd Street, Parkland Drive, and Lipsey Drive construction projects. Construction of Shepherd Street began in July 2008 and is anticipated to be completed by early Fall 2008. The expansion of Parkland and Lipsey Drives, in the industrial park, is on hold pending approval of the environmental permits by the State of Michigan. Also included in CIP is the construction cost for the west-side fire station. Construction of the fire station began in January 2008 and is projected to be completed in December 2008.

# **City of Charlotte, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Debt**

At year end, the City had \$11.3 million in bonds and notes outstanding. This represents a \$2.7 million increase from the previous year. This increase is the result of a \$3 million voter approved G.O. bond issue for the construction of a west-side fire station. The difference between the increase amount and the new bond issue amount is principal payments made during the year on previous bonds outstanding. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

### **Economic Factors and Next Year's Budget and Rates**

The City's budget for the 2008/2009 fiscal year is balanced with a level property tax rate of 13.4346 mills. Estimated property tax revenues are expected to increase by approximately \$150,000. This increase is primarily the result of the highest taxable value inflationary index used under Proposal A since its adoption in 1994. As stated earlier, the City's General Fund revenue is comprised predominantly of property taxes and state-shared revenue. The City has seen a leveling off of state-shared revenue receipts since fiscal year 2001/2002 due to state budget shortfalls. This reduction in state-shared revenue coupled with minimal property tax growth has hindered the City's ability to realize revenues adequate enough to maintain current services and yet meet the demands of escalating employee benefit and operating expenditures. As a result, the City again limited its capital outlay expenditures for fiscal year 2008/2009 as well as eliminating one police patrol officer position.

Total expenses in the General Fund for fiscal year 2008/2009 are estimated to be \$5.1 million. The public safety departments represent the single largest component of overall budget expenditures with a total estimated cost of \$2.9 million.

### **Contacting the City's Financial Management**

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the finance director's office at the City of Charlotte, 111 E. Lawrence Ave., Charlotte, Michigan 48813.

# City of Charlotte, Michigan

## Statement of Net Assets June 30, 2008

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
<b>Assets</b>				
Cash and investments (Note 3)	\$ 2,861,160	\$ 656,054	\$ 3,517,214	\$ 1,119,950
Receivables - Net (Note 4)	811,906	514,563	1,326,469	3,758
Prepaid costs and other assets	179,355	198,625	377,980	-
Restricted assets - Cash and investments (Notes 3 and 8)	2,284,379	905,755	3,190,134	-
Capital assets - Net (Note 5):				
Assets not subject to depreciation	3,243,179	104,995	3,348,174	-
Assets subject to depreciation	15,893,987	16,772,387	32,666,374	-
Total assets	25,273,966	19,152,379	44,426,345	1,123,708
<b>Liabilities</b>				
Accounts payable	659,603	47,940	707,543	5,103
Accrued and other liabilities	142,661	209,226	351,887	-
Noncurrent liabilities (Note 7):				
Due within one year	267,730	510,000	777,730	-
Due in more than one year	4,186,886	6,381,879	10,568,765	-
Total liabilities	5,256,880	7,149,045	12,405,925	5,103
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	17,429,185	9,985,503	27,414,688	-
Restricted:				
Debt service	2,360	656,901	659,261	-
Streets and highways	996,035	-	996,035	-
Other purposes	27,179	248,854	276,033	-
Unrestricted	1,562,327	1,112,076	2,674,403	1,118,605
Total net assets	<u>\$ 20,017,086</u>	<u>\$ 12,003,334</u>	<u>\$ 32,020,420</u>	<u>\$ 1,118,605</u>

# City of Charlotte, Michigan

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 636,198	\$ 274,564	\$ 19,538	\$ -
Public safety	2,836,299	202,189	16,121	-
Public works	1,846,761	357,521	484,049	138,965
Community and economic development	344,634	-	162,660	54,615
Recreation and culture	257,352	-	1,408	-
Interest on long-term debt	51,028	-	-	-
Total governmental activities	5,972,272	834,274	683,776	193,580
Business-type activities:				
Water and sewer	3,020,763	2,962,171	28,203	-
Recycling	46,994	35,769	27,052	-
Total business-type activities	3,067,757	2,997,940	55,255	-
Total primary government	<u>\$ 9,040,029</u>	<u>\$ 3,832,214</u>	<u>\$ 739,031</u>	<u>\$ 193,580</u>
Component units:				
Downtown Development Authority	\$ 26,557	\$ -	\$ -	\$ -
Local Development Financing Authority	23,109	-	-	-
Total component units	<u>\$ 49,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
Unrestricted state-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
<b>Changes in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				



**Statement of Activities**  
**Year Ended June 30, 2008**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (342,096)	\$ -	\$ (342,096)	\$ -
(2,617,989)	-	(2,617,989)	-
(866,226)	-	(866,226)	-
(127,359)	-	(127,359)	-
(255,944)	-	(255,944)	-
(51,028)	-	(51,028)	-
(4,260,642)	-	(4,260,642)	-
-	(30,389)	(30,389)	-
-	15,827	15,827	-
-	(14,562)	(14,562)	-
(4,260,642)	(14,562)	(4,275,204)	-
-	-	-	(26,557)
-	-	-	(23,109)
-	-	-	(49,666)
3,128,658	-	3,128,658	210,367
1,040,457	-	1,040,457	-
159,880	66,848	226,728	34,406
174,269	5,524	179,793	2,660
22,747	(22,747)	-	-
4,526,011	49,625	4,575,636	247,433
265,369	35,063	300,432	197,767
19,751,717	11,968,271	31,719,988	920,838
<b>\$ 20,017,086</b>	<b>\$ 12,003,334</b>	<b>\$ 32,020,420</b>	<b>\$ 1,118,605</b>

# City of Charlotte, Michigan

## Governmental Funds Balance Sheet June 30, 2008

	General Fund	Major Street Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments (Note 3)	\$ 1,591,413	\$ 565,381	\$ -	\$ 610,925	\$ 2,767,719
Receivables - Net (Note 4)	590,454	66,112	1,377	152,955	810,898
Prepaid costs and other assets	136,346	821	-	1,641	138,808
Restricted assets - Cash and investments (Notes 3 and 8)	-	-	2,282,019	2,360	2,284,379
Total assets	<b>\$ 2,318,213</b>	<b>\$ 632,314</b>	<b>\$ 2,283,396</b>	<b>\$ 767,881</b>	<b>\$ 6,001,804</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 145,811	\$ 14,894	\$ 502,875	\$ 10,728	\$ 674,308
Accrued and other liabilities	125,076	3,829	-	6,128	135,033
Deferred revenue (Note 4)	315,997	4,816	-	138,911	459,724
Total liabilities	586,884	23,539	502,875	155,767	1,269,065
<b>Fund Balances</b>					
Reserved for:					
Debt service	-	-	-	2,360	2,360
Law enforcement	-	-	-	27,179	27,179
Prepaid assets and other assets	136,346	821	-	1,641	138,808
Unreserved, reported in:					
General Fund:					
Designated for:					
Building maintenance	51,122	-	-	-	51,122
Retiree health benefits	200,000	-	-	-	200,000
Compensated absences	67,400	-	-	-	67,400
Major equipment purchases	60,000	-	-	-	60,000
Undesignated	1,216,461	-	-	-	1,216,461
Special Revenue Funds	-	607,954	-	580,934	1,188,888
Capital Projects Funds	-	-	1,780,521	-	1,780,521
Total fund balances	1,731,329	608,775	1,780,521	612,114	4,732,739
Total liabilities and fund balances	<b>\$ 2,318,213</b>	<b>\$ 632,314</b>	<b>\$ 2,283,396</b>	<b>\$ 767,881</b>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	18,366,836
Special assessment and other receivables are expected to be collected over several years and are not available to pay for current year expenditures	459,724
Accrued interest is not due and payable in the current period and is not reported in the funds	(5,430)
Governmental funds report bond issuance costs as expenditures; these costs are allocated over the related bond term as interest expense.	27,745
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(4,454,616)
Internal Service Funds are included as part of governmental activities	890,088
Net assets of governmental activities	<b>\$ 20,017,086</b>

# City of Charlotte, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	Major Street Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>					
Property taxes	\$ 3,083,511	\$ -	\$ -	\$ -	\$ 3,083,511
Special assessments	-	3,964	-	10,811	14,775
Licenses and permits	115,929	-	-	-	115,929
State and local sources	905,152	865,634	-	199,884	1,970,670
Federal sources	1,408	-	-	162,660	164,068
Charges for services	273,285	-	-	-	273,285
Fines and forfeitures	33,183	-	-	-	33,183
Other	257,486	28,302	1,377	23,712	310,877
Total revenue	4,669,954	897,900	1,377	397,067	5,966,298
<b>Expenditures</b>					
Current:					
General government	603,192	-	-	-	603,192
Public safety	2,686,395	-	1,193,111	5,632	3,885,138
Public works	654,664	358,019	-	246,280	1,258,963
Recreation and culture	249,435	-	-	-	249,435
Community and economic development	119,958	-	-	217,116	337,074
Capital outlay	158,128	530,388	-	-	688,516
Debt service:					
Principal retirement	-	-	27,745	90,000	117,745
Interest and fiscal charges	-	-	-	51,512	51,512
Total expenditures	4,471,772	888,407	1,220,856	610,540	7,191,575
<b>Excess of Revenue Over (Under) Expenditures</b>	198,182	9,493	(1,219,479)	(213,473)	(1,225,277)
<b>Other Financing Sources (Uses)</b>					
Proceeds from issuance of long-term debt	-	-	3,000,000	-	3,000,000
Transfers in	-	33,300	-	290,612	323,912
Transfers out	(138,682)	(133,230)	-	(29,253)	(301,165)
Total other financing sources (uses)	(138,682)	(99,930)	3,000,000	261,359	3,022,747
<b>Net Changes in Fund Balances</b>	59,500	(90,437)	1,780,521	47,886	1,797,470
<b>Fund Balances - Beginning of year</b>	1,671,829	699,212	-	564,228	2,935,269
<b>Fund Balances - End of year</b>	<u>\$ 1,731,329</u>	<u>\$ 608,775</u>	<u>\$ 1,780,521</u>	<u>\$ 612,114</u>	<u>\$ 4,732,739</u>

# City of Charlotte, Michigan

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

**Net Change in Fund Balances - Total Governmental Funds** \$ 1,797,470

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	2,041,861
Depreciation on general capital assets is recorded in the statement of activities; it is not recorded at the fund level	(1,076,758)
Loss on the sale of capital assets is recorded in the statement of activities when capital assets are sold	(6,660)
Capital contributions are recorded in the statement of activities; they are not recorded at the fund level	124,190
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	76,556
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	115,374
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(3,000,000)
Bond costs are an expenditure in the governmental funds; in the statement of activities, these costs are allocated over the life of the related debt	27,745
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	107,874
Interest expense is recorded in the statement of activities when incurred; it is not reported in the funds until paid or payable within 60 days of year end	484
The net change in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	(140)
Internal Service Funds are also included as governmental activities	57,373

**Change in Net Assets of Governmental Activities** \$ 265,369

# City of Charlotte, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2008

	Business-type Activities			Governmental Activities Internal Service Fund - Motor Pool
	Major Fund	Nonmajor Fund		
	Water Supply and Sewage Disposal	Recycling	Total	
<b>Assets</b>				
Current assets:				
Cash and investments (Note 3)	\$ 620,281	\$ 35,773	\$ 656,054	\$ 112,774
Receivables - Net (Note 4)	514,445	118	514,563	1,008
Inventories	55,437	-	55,437	-
Prepays and other assets	139,568	3,620	143,188	12,802
Total current assets	1,329,731	39,511	1,369,242	126,584
Noncurrent assets:				
Restricted assets - Cash and investments (Notes 3 and 8)	905,755	-	905,755	-
Net capital assets (Note 5)	16,877,382	-	16,877,382	770,331
Total assets	<u>\$ 19,112,868</u>	<u>\$ 39,511</u>	<u>\$ 19,152,379</u>	<u>\$ 896,915</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	\$ 47,138	\$ 802	\$ 47,940	\$ 4,626
Accrued liabilities	208,054	1,172	209,226	2,201
Current portion of long-term debt (Note 7)	510,000	-	510,000	-
Total current liabilities	765,192	1,974	767,166	6,827
Noncurrent liabilities - Long-term debt - Net of current portion (Note 7)	6,381,879	-	6,381,879	-
Total liabilities	7,147,071	1,974	7,149,045	6,827
<b>Net Assets</b>				
Investment in capital assets - Net of related debt	9,985,503	-	9,985,503	770,331
Restricted for debt service	656,901	-	656,901	-
Other purposes	248,854	-	248,854	-
Unrestricted	1,074,539	37,537	1,112,076	119,757
Total net assets	11,965,797	37,537	12,003,334	890,088
Total liabilities and net assets	<u>\$ 19,112,868</u>	<u>\$ 39,511</u>	<u>\$ 19,152,379</u>	<u>\$ 896,915</u>

# City of Charlotte, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Business-type Activities			Governmental
	Major Fund	Nonmajor Fund		Activities
	Water Supply and Sewage Disposal	Recycling	Total	Internal Service Fund - Motor Pool
<b>Operating Revenue</b>				
Water sales	\$ 917,463	\$ -	\$ 917,463	\$ -
Sewage charges	1,810,109	-	1,810,109	-
Tap fees	234,599	-	234,599	-
Recycling fees	-	35,769	35,769	-
Charges for services	-	-	-	447,226
Other	33,192	27,587	60,779	-
Total operating revenue	2,995,363	63,356	3,058,719	447,226
<b>Operating Expenses</b>				
Cost of services	2,039,009	-	2,039,009	265,300
Recycling	-	46,994	46,994	-
Depreciation	624,226	-	624,226	126,095
Total operating expenses	2,663,235	46,994	2,710,229	391,395
<b>Operating Income</b>	332,128	16,362	348,490	55,831
<b>Nonoperating Revenue (Expenses)</b>				
Investment income	65,940	908	66,848	5,081
Interest expense	(357,528)	-	(357,528)	-
Loss on disposal of assets	-	-	-	(3,539)
Total nonoperating revenue (expenses)	(291,588)	908	(290,680)	1,542
<b>Income - Before transfers</b>	40,540	17,270	57,810	57,373
<b>Transfers to Other Funds</b>	(22,747)	-	(22,747)	-
<b>Changes in Net Assets</b>	17,793	17,270	35,063	57,373
<b>Net Assets - Beginning of year</b>	11,948,004	20,267	11,968,271	832,715
<b>Net Assets - End of year</b>	<u>\$ 11,965,797</u>	<u>\$ 37,537</u>	<u>\$ 12,003,334</u>	<u>\$ 890,088</u>

# City of Charlotte, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

	Business-type Activities			Governmental Activities
	Major Fund	Nonmajor Fund		
	Water Supply and Sewage Disposal	Recycling	Total	Internal Service Fund - Motor Pool
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 2,985,671	\$ 63,338	\$ 3,049,009	\$ 447,025
Payments to suppliers	(1,084,896)	(24,785)	(1,109,681)	(178,654)
Payments to employees	(931,471)	(21,898)	(953,369)	(89,314)
Net cash provided by operating activities	969,304	16,655	985,959	179,057
<b>Cash Flows from Noncapital Financing Activities</b> - Transfers to/from other funds	(22,747)	-	(22,747)	-
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from sales of capital assets	-	-	-	15,000
Purchase of capital assets	(221,928)	-	(221,928)	(227,182)
Principal and interest paid on capital debt	(818,813)	-	(818,813)	-
Net cash used in capital and related financing activities	(1,040,741)	-	(1,040,741)	(212,182)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	65,940	908	66,848	5,081
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(28,244)	17,563	(10,681)	(28,044)
<b>Cash and Cash Equivalents</b> - Beginning of year	1,554,280	18,210	1,572,490	140,818
<b>Cash and Cash Equivalents</b> - End of year	<u>\$ 1,526,036</u>	<u>\$ 35,773</u>	<u>\$ 1,561,809</u>	<u>\$ 112,774</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>				
Cash and investments	\$ 620,281	\$ 35,773	\$ 656,054	\$ 112,774
Restricted assets - Cash and cash equivalents	905,755	-	905,755	-
Total cash and cash equivalents	<u>\$ 1,526,036</u>	<u>\$ 35,773</u>	<u>\$ 1,561,809</u>	<u>\$ 112,774</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>				
Operating income	\$ 332,128	\$ 16,362	\$ 348,490	\$ 55,831
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation and amortization	624,226	-	624,226	126,095
Loss on sale of capital assets	-	-	-	(3,539)
Changes in assets and liabilities:				
Receivables	(9,692)	(18)	(9,710)	(201)
Other assets	9,701	(356)	9,345	102
Accounts payable	3,973	366	4,339	880
Accrued and other liabilities	8,968	301	9,269	(111)
Net cash provided by operating activities	<u>\$ 969,304</u>	<u>\$ 16,655</u>	<u>\$ 985,959</u>	<u>\$ 179,057</u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2008, there were no noncash investing, capital, or financing activities.

# City of Charlotte, Michigan

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## **Fiduciary Funds Statement of Assets and Liabilities June 30, 2008**

	Agency Fund
	<hr/>
<b>Assets</b> - Cash and cash equivalents	<b><u>\$ 106,697</u></b>
<b>Liabilities</b> - Accrued and other liabilities	<b><u>\$ 106,697</u></b>



# City of Charlotte, Michigan

## Component Units Statement of Net Assets June 30, 2008

	Downtown Development Authority	Local Development Financing Authority	Total
<b>Assets</b>			
Cash and investments	\$ 106,439	\$ 1,013,511	\$ 1,119,950
Accrued interest receivable	358	3,400	3,758
Total assets	106,797	1,016,911	1,123,708
<b>Liabilities</b> - Accounts payable	5,103	-	5,103
<b>Net Assets</b> - Unrestricted	<u>\$ 101,694</u>	<u>\$ 1,016,911</u>	<u>\$ 1,118,605</u>

# City of Charlotte, Michigan

## Component Units Statement of Activities Year Ended June 30, 2008

	Net (Expense) Revenue and Changes in Net Assets			
		Local		
		Downtown	Development	
		Development	Financing	
	Expenses	Authority	Authority	Total
Downtown Development Authority	\$ 26,557	\$ (26,557)	\$ -	\$ (26,557)
Local Development Financing Authority	23,109	-	(23,109)	(23,109)
Total governmental activities	<u>\$ 49,666</u>	(26,557)	(23,109)	(49,666)
<b>General Revenues</b>				
Property taxes		51,270	159,097	210,367
Interest		2,528	31,878	34,406
Miscellaneous		2,660	-	2,660
Total general revenues		<u>56,458</u>	<u>190,975</u>	<u>247,433</u>
<b>Change in Net Assets</b>		29,901	167,866	197,767
<b>Net Assets</b> - Beginning of year		<u>71,793</u>	<u>849,045</u>	<u>920,838</u>
<b>Net Assets</b> - End of year		<u>\$ 101,694</u>	<u>\$ 1,016,911</u>	<u>\$ 1,118,605</u>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Charlotte, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Charlotte, Michigan:

#### **Reporting Entity**

The City of Charlotte, Michigan is governed by an elected seven-member council and administered by an appointed City manager. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

**Blended Component Units** - The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

**Discretely Presented Component Units** - The following component units are reported within the component units column in the statement of net assets. They are reported in a separate column to emphasize that they are legally separate from the City. More detailed information on each component unit is disclosed in the component units statement of net assets.

The Downtown Development Authority (DDA) was established pursuant to P.A. 197 of 1975 for the purpose of revitalizing the downtown business district. The DDA's governing body, which consists of nine individuals, is appointed by the City Council. In addition, the DDA's annual budget is subject to review and approval by the City Council. The DDA uses governmental fund-type accounting. Financial statements for the Downtown Development Authority are available at the City.

The Local Development Financing Authority (LDFA) was established pursuant to P.A. 281 of 1986 for the purpose of developing and marketing an industrial park. The LDFA's governing body, which consists of eight individuals, is appointed by the City Council. In addition, the LDFA's annual budget is subject to review and approval by the City Council. The LDFA uses governmental fund-type accounting. Financial statements for the Local Development Financing Authority are available at the City.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, receivables have been recorded for special assessments which will be collected after the period of availability along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value, and deferred revenue is recorded for the portion not available for use to finance operations as of year end. Interest income on special assessments receivable is not accrued until its due date.

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1, at which time penalties and interest are assessed.

The City's 2006 tax is levied and collectible on July 1, 2007 and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the City of Charlotte, Michigan totaled \$219,774,869 (a portion of which is captured by the LDFA and DDA), on which taxes levied consisted of 13.4346 mills and resulted in \$2,952,587 for operating purposes. These amounts are recognized in the General Fund financial statements as tax revenue.

### **Note I - Summary of Significant Accounting Policies (Continued)**

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Street Fund** - This fund is used to control the expenditure of motor fuel taxes and trunkline maintenance funds, which are earmarked by law and the state constitution for major street and highway purposes.

**Building Fund** - This fund is used to account for the construction of the West Side Fire Station.

The City reports the following major proprietary fund:

**Water Supply and Sewage Disposal Fund** - This fund is used to account for the operation of the City's water distribution, water treatment, sewage disposal, and sewage treatment systems; the construction and acquisition of additions and improvements to those systems; and contributions toward the payment of interest and principal on general obligation bonds issued to help finance the construction projects undertaken by this fund.

Additionally, the City reports the following fund types:

**Internal Service Fund** - The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

**Agency Fund** - The Agency Fund is used to account for the collection of property taxes due to other jurisdictions that will be subsequently transferred to third parties.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water Supply and Sewage Disposal Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund and the Water and Sewer Funds is generally allocated to each fund by a percentage of total investment value attributable to each fund.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of an allowance for uncollectible amounts.

### Note I - Summary of Significant Accounting Policies (Continued)

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - The revenue bonds of the Enterprise Funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of the City of Charlotte, Michigan's water and sewer lines.

The revenue bond of the Building Fund requires amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. The amount of the unspent bond proceeds has been classified as a restricted asset for the construction of the West Side Fire Station.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense capitalized as part of the cost of assets under construction.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	25 to 50 years
Water and sewer buildings and systems	10 to 100 years
Buildings and building improvements	25 to 50 years
Vehicles	3 years
Equipment	5 to 10 years



### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for nonvested accumulated sick leave. All vacation pay and vested sick leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Comparative Data/Reclassifications** - Comparative data is not included in the City's financial statements.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

Charter provisions require department head budget submissions by the second Monday in February, submission of the budget to Council by the second Monday in April, and adoption of the budget by the third Monday in May. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the City is the activity level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund is presented as required supplemental information; a comparison of budget to actual revenue and expenditures for all other governmental funds is reported as other supplemental information.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City had the following budget variances:

	Budget	Actual
General Fund - General governmental	\$ 602,835	\$ 609,412
Major Street Fund - Street maintenance	866,886	888,407

Higher than anticipated fourth quarter health insurance claims resulted in a budgetary deficit for the General Fund's general government expenditures. This deficit will be covered by a draw on the General Fund's unreserved fund balance.

Unanticipated work on the Shepherd Street project performed the last week of June 2008 resulted in the Major Street Fund's budgetary deficit. This deficit will be covered by a draw on the Major Street Fund's unreserved fund balance.

The nonmajor Special Revenue Grants Fund had an unreserved fund deficit at June 30, 2008 of \$19,923. This deficit relates to the timing of the receipt of grant revenue.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated five banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above.

The City's cash and investments are subject to two types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$6,618,320 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits had a bank balance of \$1,086,977, of which \$61,951 was covered by federal depository insurance and \$1,025,026 was uninsured and uncollateralized.

#### **Credit Risk**

As of year end, the City had \$637,123 invested in bank investment pools with a rating of AAAM by Standard and Poor's. The City's investment policy does not limit credit risk beyond that imposed by state law.

# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2008

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Street Fund	Building Fund	Water and Sewer Fund	Nonmajor Funds	Total
Receivables:						
Intergovernmental	\$ 299,526	\$ 58,557	\$ -	\$ -	\$ 31,956	\$ 390,039
Special assessments	-	4,816		-	118,989	123,805
Accounts	285,938	847	-	511,368	-	798,153
Interest and other	4,990	1,892	1,377	3,077	3,136	14,472
Net receivables	<u>\$ 590,454</u>	<u>\$ 66,112</u>	<u>\$ 1,377</u>	<u>\$ 514,445</u>	<u>\$ 154,081</u>	<u>\$ 1,326,469</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable
Special assessment	\$ 123,805
State-shared revenue	315,997
Grant revenue	<u>19,922</u>
Total	<u>\$ 459,724</u>

# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 1,846,376	\$ 80,000	\$ -	\$ 1,926,376
Construction in progress	64,765	1,281,965	29,927	1,316,803
Subtotal	1,911,141	1,361,965	29,927	3,243,179
Capital assets being depreciated:				
Infrastructure	22,897,267	700,033	-	23,597,300
Buildings and improvements	2,703,800	44,190	-	2,747,990
Vehicles	2,117,994	231,720	159,486	2,190,228
Equipment	2,714,056	89,791	115,593	2,688,254
Subtotal	30,433,117	1,065,734	275,079	31,223,772
Accumulated depreciation:				
Infrastructure	9,591,925	878,916	-	10,470,841
Buildings and improvements	1,377,884	55,643	-	1,433,527
Vehicles	1,433,750	126,095	139,948	1,419,897
Equipment	1,972,253	142,200	108,933	2,005,520
Subtotal	14,375,812	1,202,854	248,881	15,329,785
Net capital assets being depreciated	16,057,305	(137,120)	26,198	15,893,987
Net capital assets	\$ 17,968,446	\$ 1,224,845	\$ 56,125	\$ 19,137,166
<b>Business-type Activities</b>				
Capital assets not being depreciated -				
Land	\$ 104,995	\$ -	\$ -	\$ 104,995
Capital assets being depreciated - Buildings and systems	26,592,016	221,928	2,534	26,811,410
Accumulated depreciation - Buildings and systems	9,417,331	624,226	2,534	10,039,023
Net capital assets being depreciated	17,174,685	(402,298)	-	16,772,387
Net capital assets	\$ 17,279,680	\$ (402,298)	\$ -	\$ 16,877,382

### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 54,192
Public safety	92,166
Public works	844,230
Community and economic development	2,588
Recreation and culture	83,583
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>126,095</u>

Total governmental activities \$ 1,202,854

Business-type activities:

Water	\$ 141,516
Sewer	<u>482,710</u>

Total business-type activities \$ 624,226

**Construction Commitments** - As of June 30, 2008, the City of Charlotte, Michigan has outstanding commitments with contractors for the following projects:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Shephard Street construction	\$ 89,855	\$ 1,510,145
West Side Fire Station	<u>1,074,630</u>	<u>1,648,428</u>
Total	<u>\$ 1,164,485</u>	<u>\$ 3,158,573</u>

These outstanding commitments with contractors will be paid with unspent bond proceeds and future tax collections.

### Note 6 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Major Street Fund	\$ 33,300
	Nonmajor Special Revenue Funds	59,200
	Nonmajor Debt Service Funds	46,182
	Subtotal General Fund	138,682
Major Street Fund	Nonmajor Special Revenue Fund	89,350
	Nonmajor Debt Service Fund	43,880
	Subtotal Major Street Fund	133,230
Nonmajor Special Revenue Fund	Nonmajor Debt Service Fund	29,253
	Total governmental activities	301,165
Water Supply and Sewage Disposal Fund	Nonmajor Debt Service Fund	22,747
	Total interfund transfers	<u>\$ 323,912</u>

The transfers from the General Fund to the Major and nonmajor Special Revenue Funds represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations; the transfer from the Major Streets Fund to the nonmajor Special Revenue Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51; the transfers from the Major Streets and nonmajor Special Revenue Fund to the nonmajor Debt Service Fund represent the movement of resources to be used to service Major Streets and nonmajor Special Revenue Fund debt, respectively; the transfers from the General Fund and Water and Sewer Fund to the nonmajor Debt Service Fund represent the movement of resources to be used to service the nonmajor Debt Service Fund debt.

# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt

The City of Charlotte, Michigan issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. A county contractual agreement is also a general obligation of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Maturing Through	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
General obligation bonds:							
Building Authority Bonds - Series 2001 (Limited Tax General Obligation) Bonds	4.4% - 5.1%	2016	\$ 500,000	\$ -	\$ 45,000	\$ 455,000	\$ 50,000
Michigan Transportation Fund Bonds - Series 2001 (Limited Tax General Obligation) Bonds	4.6% - 5.3%	2017	580,000	-	45,000	535,000	45,000
2008 Facility Building and Site Bonds (Unlimited Tax General Obligation)	4.125% - 4.25%	2032	-	3,000,000	-	3,000,000	20,000
Economic Development Agreement		2017	165,330	-	17,874	147,456	17,874
Other long-term obligations - Compensated absences			317,020	184,504	184,364	317,160	134,856
Total governmental activities			<u>\$ 1,562,350</u>	<u>\$ 3,184,504</u>	<u>\$ 292,238</u>	<u>\$ 4,454,616</u>	<u>\$ 267,730</u>
<b>Business-type Activities</b>							
County Bond Obligations - County of Eaton							
1996 Water and Sewer Bonds	4.375%	2011	\$ 805,000	\$ -	\$ 195,000	\$ 610,000	\$ 200,000
Revenue bonds:							
1999 Revenue Bonds - Water Supply and Sewage Disposal System	5.2%	2009	520,000	-	255,000	265,000	265,000
2005 Revenue Refunding Bonds - Water Supply and Sewage Disposal System - Net of loss on refunding of \$433,121	3.0% - 4.25%	2024	6,028,164	-	11,285	6,016,879	45,000
Total business-type activities			<u>\$ 7,353,164</u>	<u>\$ -</u>	<u>\$ 461,285</u>	<u>\$ 6,891,879</u>	<u>\$ 510,000</u>



# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 132,874	\$ 155,993	\$ 288,867	\$ 510,000	\$ 296,078	\$ 806,078
2010	172,874	167,445	340,319	530,000	272,198	802,198
2011	187,874	160,431	348,305	540,000	251,856	791,856
2012	202,874	152,782	355,656	350,000	231,160	581,160
2013	222,874	144,257	367,131	360,000	218,910	578,910
2014-2018	1,018,086	573,772	1,591,858	2,025,000	875,550	2,900,550
2019-2023	625,000	411,250	1,036,250	2,455,000	433,194	2,888,194
2024-2028	795,000	269,144	1,064,144	555,000	23,588	578,588
2029-2032	780,000	85,000	865,000	-	-	-
Total	4,137,456	2,120,074	6,257,530	7,325,000	2,602,534	9,927,534
Less unamortized loss on refunding	-	-	-	(433,121)	-	(433,121)
Total bonds payable	<u>\$ 4,137,456</u>	<u>\$ 2,120,074</u>	<u>\$ 6,257,530</u>	<u>\$ 6,891,879</u>	<u>\$ 2,602,534</u>	<u>\$ 9,494,413</u>

**Advance and Current Refundings** - During 2006, the City issued \$6,570,000 in revenue refunding bonds with an average interest rate of 3.0 percent to 4.25 percent. The proceeds of these bonds were used to advance refund \$6,180,000 of outstanding 1999 Water Supply and Sewage Disposal System revenue bonds with an average interest rate of 5.2 percent. The net proceeds of \$6,453,547 (after payment of \$141,629 in underwriting fees, insurance, and other issuance costs) plus an additional \$84,551 of Reserve and Debt Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds was removed from the Water Supply and Sewage Disposal System Fund statement of net assets. The outstanding balance of the defeased bonds at June 30, 2008 is \$6,180,000.

### Note 7 - Long-term Debt (Continued)

**Future Revenues Pledged for Debt Payment** - The City has pledged substantially all revenue of the water and sewer fund, net of operating expenses, to repay the above water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction of the water supply and sewage disposal system. The bonds are payable solely from the net revenues of the water and sewer system. The remaining principal and interest to be paid on the bonds is \$6,281,879. During the current year, net revenues of the system were \$2,995,363 compared to the annual debt requirements of \$578,850.

### Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities	Business-type Activities
Operation and Maintenance Fund	\$ -	\$ 248,854
Bond and Interest Redemption Fund	2,360	75,591
Bond reserve account	-	581,310
Unspent bond proceeds	2,282,019	-
Total restricted assets	<u>\$ 2,284,379</u>	<u>\$ 905,755</u>

**Operation and Maintenance Fund** - The Water Supply and Sewage Disposal System is required to maintain cash sufficient to provide for operation and maintenance of the system.

**Bond and Interest Redemption Fund** - This fund represents cash to be used for the current principal and interest due in the water supply and sewage disposal system.

**Bond Reserve Account** - The water supply and sewage disposal system is required to maintain cash to be used solely for the payment of principal and interest when there would otherwise be default.

**Unspent Bond Proceeds** - The cash received from the issuance of the 2008 Facility Building and Site Bonds is required to be spent solely on expenditures related to projects covered under the bond agreement.

### **Note 9 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and error and omissions, and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 10 - Defined Benefit Pension Plan**

**Plan Description** - The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

**Funding Policy** - The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 0.0 percent to 10.03 percent of gross wages for the various groups.

**Annual Pension Cost** - For the year ended June 30, 2008, the City's annual pension cost of \$341,610 for the plan was equal to the City's required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0 percent to 8.40 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5 percent per year after retirement, for persons selecting certain benefit options. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 28 years.

# City of Charlotte, Michigan

## Notes to Financial Statements June 30, 2008

### Note 10 - Defined Benefit Pension Plan (Continued)

	Fiscal Year Ended June 30		
	2006	2007	2008
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 266,369	\$ 296,717	\$ 341,610
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-
	Actuarial Valuation as of December 31		
	2005	2006	2007
Actuarial value of assets	\$ 10,699,124	\$ 11,297,810	\$ 11,935,577
Actuarial accrued liability - Entry age	13,679,913	14,521,558	15,255,703
Unfunded AAL (UAAL)	2,980,789	3,223,748	3,320,126
Funded ratio	78%	78%	78%
Covered payroll	2,474,754	2,518,893	2,534,176
UAAL as a percentage of covered payroll	120%	128%	131%

### Note 11 - Defined Contribution Pension Plan

The City provides pension benefits to the City manager and department supervisors through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by MERS, the City contributes 13.88 percent of employees' gross earnings. Contributions for each employee plus interest are allocated to the employee's account. The City manager's plan has immediate vesting while department supervisors are fully vested after four years of service.

The City's total payroll during the current year was \$2,742,256. The current year contribution was calculated based on covered payroll of \$164,739, resulting in an employer contribution of \$22,640 and employee contributions of \$0.

### Note 12 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspections of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for the construction code costs, including an allocation of estimated overhead costs.

A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - June 30, 2007	\$ (679,797)
Current year building permit revenue	94,254
Related expenses	<u>(165,256)</u>
Cumulative shortfall - June 30, 2008	<u>\$ (750,799)</u>

### Note 13 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The City pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the City's group rates. Currently, 13 retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2008, the City made payments for postemployment health benefits of \$164,350. The City obtains healthcare coverage through private insurers.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year beginning July 1, 2009.

### **Note 14 - Lincoln Park Litigation**

The City purchased a parcel of property that was previously classified as a contaminated site by the State of Michigan. The Michigan Department of Environmental Quality (MDEQ) incurred approximately \$1.2 million in clean-up costs. The State is pursuing reimbursement from the property's previous owners who were responsible for the contamination. If the State is not successful in obtaining reimbursement from the property's previous owners, the courts have previously issued a legal opinion determining that the City could be held liable under an indemnification clause and be responsible for the extent of damages asserted by the State against the previous owner. Given these circumstances, and the uncertainty of the outcome or dollar amount of the potential damages, a liability has not been recorded in the financial statements.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The new pronouncement provides guidance for local units of government to identify circumstances under which a liability would be recorded related to pollution remediation. The new rules will cause the government-wide financial statements to recognize an estimate of the expected outlays for pollution remediation if it knows a site is polluted and/or if the government is responsible for the costs related to the cleanup. The new pronouncement is effective for the City's fiscal year ending June 30, 2009.

## **Required Supplemental Information**

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# City of Charlotte, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget (Activity Level)	Amended Budget (Activity Level)	Actual	Variance with Amended Budget - Favorable (Unfavorable)
<b>Fund Balance - Beginning of year</b>	\$ 1,671,829	\$ 1,671,829	\$ 1,671,829	\$ -
<b>Resources (Inflows)</b>				
Property taxes	3,057,400	3,057,400	3,083,511	26,111
Licenses and permits	65,200	65,200	115,929	50,729
Intergovernmental	840,000	840,000	906,560	66,560
Charges for services	224,300	224,300	273,285	48,985
Fines and forfeitures	28,800	28,800	33,183	4,383
Other	136,425	136,425	257,486	121,061
Total resources (inflows)	4,352,125	4,352,125	4,669,954	317,829
<b>Charges to Appropriations (Outflows)</b>				
General government	602,835	602,835	609,412	(6,577)
Public safety	2,787,178	2,787,178	2,775,401	11,777
Public works	739,206	739,206	665,856	73,350
Recreation and culture	200,109	305,109	278,712	26,397
Community and economic development	142,083	142,083	142,391	(308)
Transfers to other funds	138,682	138,992	138,682	310
Total charges to appropriations (outflows)	4,610,093	4,715,403	4,610,454	104,949
<b>Fund Balance - End of year</b>	<b>\$ 1,413,861</b>	<b>\$ 1,308,551</b>	<b>\$ 1,731,329</b>	<b>\$ 422,778</b>



# City of Charlotte, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Street Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
<b>Fund Balance - Beginning of year</b>	\$ 699,212	\$ 699,212	\$ 699,212	\$ -
<b>Resources (Inflows)</b>				
State sources	400,000	868,519	865,634	(2,885)
Special assessments	1,000	1,000	3,964	2,964
Other	6,000	6,000	28,302	22,302
Transfer from other funds	33,300	33,300	33,300	-
Total resources (inflows)	440,300	908,819	931,200	22,381
<b>Charges to Appropriations (Outflows) -</b>				
Public works				
Street maintenance	221,867	866,886	888,407	(21,521)
Transfers to other funds	133,880	133,880	133,230	650
Total charges to appropriations (outflows)	355,747	1,000,766	1,021,637	(20,871)
<b>Fund Balance - End of year</b>	<b>\$ 783,765</b>	<b>\$ 607,265</b>	<b>\$ 608,775</b>	<b>\$ 1,510</b>

## **Other Supplemental Information**

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## **Nonmajor Governmental Funds**

**Local Street Fund** - This fund is used to control the expenditure of motor fuel taxes, which are earmarked by law and the state constitution for local street and highway purposes.

**Industrial Park Fund** - This fund is used to control the expenditure of monies earmarked for the City's industrial park.

**Police Training Fund** - This fund is used to control the expenditure of state grant monies, which are earmarked for the continued training of police officers.

**Drug Enforcement Fund** - This fund is used to control the expenditures of monies earmarked for the local D.A.R.E. program.

**Grant Fund** - This fund is used to control the expenditure of federal grant monies, which are earmarked for job training within the community.

**Building Authority Bond Fund** - This fund is used for payment of the 2001 Building Authority Bonds issued to cover \$375,000 of construction costs of a new DPW facility and renovations to the existing structure.

**Michigan Transportation Bond Fund** - This fund is used for payment of the 2001 Michigan Transportation Bonds issued to cover \$775,000 of construction costs and street resurfacing.

# City of Charlotte, Michigan

	Special Revenue Funds				
	Local Street	Industrial Park	Police Training	Drug Enforcement	Grant
<b>Assets</b>					
Cash and investments	\$ 367,819	\$ 215,581	\$ 19,276	\$ 8,249	\$ -
Receivables - Net	143,357	730	-	28	8,840
Prepaid costs and other assets	1,231	410	-	-	-
Restricted assets - Cash and investments	-	-	-	-	-
Total assets	<u>\$ 512,407</u>	<u>\$ 216,721</u>	<u>\$ 19,276</u>	<u>\$ 8,277</u>	<u>\$ 8,840</u>
<b>Liabilities and Fund Balances (Deficit)</b>					
<b>Liabilities</b>					
Accounts payable	\$ 1,513	\$ -	\$ 374	\$ -	\$ 8,841
Accrued and other liabilities	4,645	1,483	-	-	-
Deferred revenue	<u>118,989</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,922</u>
Total liabilities	125,147	1,483	374	-	28,763
<b>Fund Balances (Deficit)</b>					
Reserved:					
Debt service	-	-	-	-	-
Law enforcement	-	-	18,902	8,277	-
Prepaid expenses	1,231	410	-	-	-
Unreserved - Special revenue	<u>386,029</u>	<u>214,828</u>	<u>-</u>	<u>-</u>	<u>(19,923)</u>
Total fund balances (deficit)	<u>387,260</u>	<u>215,238</u>	<u>18,902</u>	<u>8,277</u>	<u>(19,923)</u>
Total liabilities and fund balances (deficit)	<u>\$ 512,407</u>	<u>\$ 216,721</u>	<u>\$ 19,276</u>	<u>\$ 8,277</u>	<u>\$ 8,840</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2008**

Debt Service Funds		
Building Authority Bond	Michigan Transportation Bond	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 610,925
-	-	152,955
-	-	1,641
<u>2,277</u>	<u>83</u>	<u>2,360</u>
<u><b>\$ 2,277</b></u>	<u><b>\$ 83</b></u>	<u><b>\$ 767,881</b></u>

\$ -	\$ -	\$ 10,728
-	-	6,128
-	-	138,911
-	-	155,767

2,277	83	2,360
-	-	27,179
-	-	1,641
-	-	580,934
<u>2,277</u>	<u>83</u>	<u>612,114</u>
<u><b>\$ 2,277</b></u>	<u><b>\$ 83</b></u>	<u><b>\$ 767,881</b></u>

# City of Charlotte, Michigan

	Special Revenue Funds				
	Local Street	Industrial Park	Police Training	Drug Enforcement	Grants
<b>Revenue</b>					
State sources	\$ 141,069	\$ -	\$ 4,200	\$ -	\$ 54,615
Federal sources	-	-	-	-	162,660
Special assessments	10,811	-	-	-	-
Other	13,685	9,240	-	787	-
Total revenue	165,565	9,240	4,200	787	217,275
<b>Expenditures</b>					
Current:					
Public safety department	-	-	3,785	1,847	-
Public works department	246,280	-	-	-	-
Community and economic development	-	43,128	-	-	173,438
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	246,280	43,128	3,785	1,847	173,438
<b>Excess of Revenue Over (Under) Expenditures</b>	(80,715)	(33,888)	415	(1,060)	43,837
<b>Other Financing Sources (Uses)</b>					
Transfers in	144,550	-	4,000	-	-
Transfers out	(29,253)	-	-	-	-
Total other financing sources	115,297	-	4,000	-	-
<b>Net Changes in Fund Balances</b>	34,582	(33,888)	4,415	(1,060)	43,837
<b>Fund Balances (Deficit) - Beginning of year</b>	352,678	249,126	14,487	9,337	(63,760)
<b>Fund Balances (Deficit) - End of year</b>	<u>\$ 387,260</u>	<u>\$ 215,238</u>	<u>\$ 18,902</u>	<u>\$ 8,277</u>	<u>\$ (19,923)</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances (Deficit) - Nonmajor Governmental Funds**  
**Year Ended June 30, 2008**

Debt Service Funds		
Building Authority Bond	Michigan Transportation Bond	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 199,884
-	-	162,660
-	-	10,811
-	-	23,712
-	-	397,067
-	-	5,632
-	-	246,280
275	275	217,116
45,000	45,000	90,000
23,654	27,858	51,512
68,929	73,133	610,540
(68,929)	(73,133)	(213,473)
68,929	73,133	290,612
-	-	(29,253)
68,929	73,133	261,359
-	-	47,886
2,277	83	564,228
<u>\$ 2,277</u>	<u>\$ 83</u>	<u>\$ 612,114</u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Local Street Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
<b>Fund Balance - Beginning of year</b>	\$ 352,678	\$ 352,678	\$ 352,678	\$ -
<b>Resources (Inflows)</b>				
State sources	144,000	144,000	141,069	(2,931)
Special assessments	20,000	20,000	10,811	(9,189)
Other	11,900	11,900	13,685	1,785
Transfer from other funds	<u>145,200</u>	<u>145,200</u>	<u>144,550</u>	<u>(650)</u>
Total resources (inflows)	321,100	321,100	310,115	(10,985)
<b>Charges to Appropriations (Outflows) -</b>				
Public works				
Street maintenance	224,362	267,362	246,280	21,082
Transfers to other funds	<u>29,253</u>	<u>29,253</u>	<u>29,253</u>	<u>-</u>
Total charges to appropriations (outflows)	<u>253,615</u>	<u>296,615</u>	<u>275,533</u>	<u>21,082</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 420,163</b></u>	<u><b>\$ 377,163</b></u>	<u><b>\$ 387,260</b></u>	<u><b>\$ 10,097</b></u>



# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Industrial Park Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
<b>Fund Balance</b> - Beginning of year	\$ 249,126	\$ 249,126	\$ 249,126	\$ -
<b>Resources (Inflows)</b> - Other	4,000	4,000	9,240	5,240
<b>Charges to Appropriations (Outflows)</b> - Community and economic development	<u>51,823</u>	<u>51,823</u>	<u>43,128</u>	<u>8,695</u>
<b>Fund Balance</b> - End of year	<u><b>\$ 201,303</b></u>	<u><b>\$ 201,303</b></u>	<u><b>\$ 215,238</b></u>	<u><b>\$ 13,935</b></u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Police Training Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
<b>Fund Balance - Beginning of year</b>	\$ 14,487	\$ 14,487	\$ 14,487	\$ -
<b>Resources (Inflows)</b>				
State sources	3,500	3,500	4,200	700
Transfer from other funds	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>-</u>
Total resources (inflows)	7,500	7,500	8,200	700
<b>Charges to Appropriations (Outflows) -</b>				
Public safety - Police	<u>7,500</u>	<u>7,500</u>	<u>3,785</u>	<u>3,715</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 14,487</u></u>	<u><u>\$ 14,487</u></u>	<u><u>\$ 18,902</u></u>	<u><u>\$ 4,415</u></u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Drug Enforcement Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
<b>Fund Balance</b> - Beginning of year	\$ 9,337	\$ 9,337	\$ 9,337	\$ -
<b>Resources (Inflows)</b>				
Interest income	150	150	328	178
Other	<u>3,000</u>	<u>3,000</u>	<u>459</u>	<u>(2,541)</u>
Total resources (inflows)	3,150	3,150	787	(2,363)
<b>Charges to Appropriations (Outflows) -</b>				
Public safety - Police	<u>2,000</u>	<u>2,000</u>	<u>1,847</u>	<u>153</u>
<b>Fund Balance</b> - End of year	<u><u>\$ 10,487</u></u>	<u><u>\$ 10,487</u></u>	<u><u>\$ 8,277</u></u>	<u><u>\$ (2,210)</u></u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Grant Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
<b>Fund Deficit - Beginning of year</b>	\$ (63,760)	\$ (63,760)	\$ (63,760)	\$ -
<b>Resources (Inflows)</b>				
Federal sources	200,000	200,000	162,660	(37,340)
State sources	<u>182,900</u>	<u>182,900</u>	<u>54,615</u>	<u>(128,285)</u>
Total resources (inflows)	382,900	382,900	217,275	(165,625)
<b>Charges to Appropriations (Outflows) -</b>				
Community and economic development	<u>200,000</u>	<u>200,310</u>	<u>173,438</u>	<u>26,872</u>
<b>Fund Balance (Deficit) - End of year</b>	<u><b>\$ 119,140</b></u>	<u><b>\$ 118,830</b></u>	<u><b>\$ (19,923)</b></u>	<u><b>\$ (138,753)</b></u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Building Authority Bond Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
<b>Fund Balance</b> - Beginning of year	\$ 2,277	\$ 2,277	\$ 2,277	\$ -
<b>Resources (Inflows)</b> - Transfer from other funds	68,929	68,929	68,929	-
<b>Charges to Appropriations (Outflows)</b> -				
Debt service				
Principal	45,000	45,000	45,000	-
Interest	23,654	23,654	23,654	-
Other	275	275	275	-
Total charges to appropriations (outflows)	68,929	68,929	68,929	-
<b>Fund Balance</b> - End of year	<u>\$ 2,277</u>	<u>\$ 2,277</u>	<u>\$ 2,277</u>	<u>\$ -</u>

# City of Charlotte, Michigan

## Other Supplemental Information Budgetary Comparison Schedule - Michigan Transportation Bond Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
<b>Fund Balance - Beginning of year</b>	\$ 83	\$ 83	\$ 83	\$ -
<b>Resources (Inflows) - Transfer from other funds</b>	73,133	73,133	73,133	-
<b>Charges to Appropriations (Outflows) -</b>				
Debt service				
Principal	45,000	45,000	45,000	-
Interest	27,858	27,858	27,858	-
Other	275	275	275	-
Total charges to appropriations (outflows)	73,133	73,133	73,133	-
<b>Fund Balance - End of year</b>	<u>\$ 83</u>	<u>\$ 83</u>	<u>\$ 83</u>	<u>\$ -</u>

# City of Charlotte, Michigan

## Other Supplemental Information Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2008

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
<b>Assets</b> - Cash and cash equivalents	<u>\$ 5,000</u>	<u>\$ 21,020,629</u>	<u>\$ 20,918,932</u>	<u>\$ 106,697</u>
<b>Liabilities</b>				
Due to other funds	\$ 5,000	\$ -	\$ -	\$ 5,000
Fire insurance withholding	-	7,443	7,443	-
Due to other governmental units	<u>-</u>	<u>10,566,039</u>	<u>10,464,342</u>	<u>101,697</u>
Total liabilities	<u>\$ 5,000</u>	<u>\$ 10,573,482</u>	<u>\$ 10,471,785</u>	<u>\$ 106,697</u>

## **Statistical Section**

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## **Statistical Section**

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This part of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

The statistical section is organized into the following main categories:

- Financial trends
- Revenue capacity
- Debt capacity
- Demographics and economic information
- Operating information

## **Financial Trends**

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These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

# City of Charlotte, Michigan

## Net Assets by Component Last Five Fiscal Years

	2004	2005	2006	2007	2008
<b>Governmental Activities</b>					
Invested in capital assets - Net of related debt	\$ 18,452,965	\$ 17,874,974	\$ 17,277,656	\$ 16,888,466	\$ 17,429,185
Restricted	824,648	978,085	1,258,245	1,078,074	1,025,574
Unrestricted	<u>1,596,273</u>	<u>1,756,948</u>	<u>1,570,373</u>	<u>1,785,177</u>	<u>1,562,327</u>
Total net assets	<u><b>\$ 20,873,886</b></u>	<u><b>\$ 20,610,007</b></u>	<u><b>\$ 20,106,274</b></u>	<u><b>\$ 19,751,717</b></u>	<u><b>\$ 20,017,086</b></u>
<b>Business-type Activities</b>					
Invested in capital assets - Net of related debt	\$ 9,365,591	\$ 9,533,904	\$ 9,534,564	\$ 9,926,516	\$ 9,985,503
Restricted	918,355	865,171	840,427	846,350	905,755
Unrestricted	<u>697,316</u>	<u>760,980</u>	<u>1,132,623</u>	<u>1,195,405</u>	<u>1,112,076</u>
Total net assets	<u><b>\$ 10,981,262</b></u>	<u><b>\$ 11,160,055</b></u>	<u><b>\$ 11,507,614</b></u>	<u><b>\$ 11,968,271</b></u>	<u><b>\$ 12,003,334</b></u>
<b>Primary Government in Total</b>					
Invested in capital assets - Net of related debt	\$ 27,818,556	\$ 27,408,878	\$ 26,812,220	\$ 26,814,982	\$ 27,414,688
Restricted	1,743,003	1,843,256	2,098,672	1,924,424	1,931,329
Unrestricted	<u>2,293,589</u>	<u>2,517,928</u>	<u>2,702,996</u>	<u>2,980,582</u>	<u>2,674,403</u>
Total net assets	<u><b>\$ 31,855,148</b></u>	<u><b>\$ 31,770,062</b></u>	<u><b>\$ 31,613,888</b></u>	<u><b>\$ 31,719,988</b></u>	<u><b>\$ 32,020,420</b></u>

Note: The City implemented GASB 34 in 2004; therefore, net assets for governmental activities is not available before 2004.

# City of Charlotte, Michigan

## Changes in Governmental Net Assets Last Five Fiscal Years

	2004	2005	2006	2007	2008
<b>Expenses</b>					
General government	\$ 592,841	\$ 609,254	\$ 650,757	\$ 606,810	\$ 636,198
Public safety	2,384,339	2,542,149	2,612,572	2,647,674	2,836,299
Public works	2,043,849	1,930,962	1,811,206	1,789,658	1,846,761
Community and economic development	182,540	275,397	169,232	643,206	344,634
Recreation and culture	224,200	54,924	185,789	211,174	257,352
Interest on long-term debt	64,845	62,873	57,357	54,933	51,028
Total governmental activities	5,492,614	5,475,559	5,486,913	5,953,455	5,972,272
<b>Program Revenues</b>					
Charges for services:					
General government	233,134	160,466	225,066	218,433	274,564
Public safety	220,660	161,416	155,155	190,175	202,189
Public works	380,681	366,987	362,519	358,457	357,521
Total charges for services	834,475	688,869	742,740	767,065	834,274
Operating grants and contributions	11,906	68,890	36,461	487,270	683,776
Capital grants and contributions	385,150	562,252	203,004	14,256	193,580
Total program revenues	1,231,531	1,320,011	982,205	1,268,591	1,711,630
<b>Net Expenses</b>	(4,261,083)	(4,155,548)	(4,504,708)	(4,684,864)	(4,260,642)
<b>General Revenues</b>					
Property taxes	2,491,783	2,612,177	2,712,501	2,919,096	3,128,658
State-shared revenues	1,301,276	1,095,448	1,096,527	1,043,178	1,040,457
Investment earnings	30,308	41,934	113,513	178,226	159,880
Miscellaneous	47,825	119,310	56,164	166,436	174,269
Total general revenues	3,871,192	3,868,869	3,978,705	4,306,936	4,503,264
<b>Transfers</b>	23,448	22,800	22,270	23,371	22,747
<b>Change in Net Assets</b>	<b>\$ (366,443)</b>	<b>\$ (263,879)</b>	<b>\$ (503,733)</b>	<b>\$ (354,557)</b>	<b>\$ 265,369</b>

Note: The City implemented GASB 34 in 2004; therefore, net assets for governmental activities is not available before 2004.

# City of Charlotte, Michigan

	1999	2000	2001	2002
<b>Operating Revenue</b>				
Water sales	\$ 523,034	\$ 678,011	\$ 816,552	\$ 867,471
Sewage charges	949,659	1,370,640	1,633,312	1,787,920
Tap fees	169,648	299,666	269,699	351,595
Recycling fees	61,861	20,086	21,660	22,401
Other	13,785	69,860	34,797	49,184
Total operating revenue	1,717,987	2,438,263	2,776,020	3,078,571
<b>Operating Expenses</b>				
Cost of services	1,367,442	1,619,150	1,447,704	1,599,276
Recycling	59,430	44,152	43,699	44,076
Depreciation	350,191	343,790	255,455	387,858
Total operating expenses	1,777,063	2,007,092	1,746,858	2,031,210
<b>Operating (Loss) Income</b>	(59,076)	431,171	1,029,162	1,047,361
<b>Nonoperating Revenue (Expense)</b>				
Investment income	64,232	335,444	486,405	94,161
Interest expense	(111,389)	(434,053)	(337,016)	(187,788)
Total nonoperating revenue (expense)	(47,157)	(98,609)	149,389	(93,627)
<b>(Loss) Income - Before contributions and other items</b>	(106,233)	332,562	1,178,551	953,734
<b>Capital Contributions</b>	215,311	216,571	1,561,773	566,614
<b>Transfers to (from) Other Funds</b>	-	5,723	-	(23,468)
<b>Change in Net Assets</b>	<u>\$ 109,078</u>	<u>\$ 554,856</u>	<u>\$ 2,740,324</u>	<u>\$ 1,496,880</u>

**Changes in Business-type Net Assets  
Last Ten Fiscal Years**

2003	2004	2005	2006	2007	2008
\$ 874,286	\$ 871,133	\$ 898,846	\$ 930,983	\$ 912,385	\$ 917,463
1,763,688	1,751,363	1,827,475	1,860,641	1,807,977	1,810,109
198,448	261,613	128,602	66,556	355,713	234,599
16,532	14,011	14,855	15,645	20,278	35,769
37,240	40,553	8,559	56,544	33,580	60,779
2,890,194	2,938,673	2,878,337	2,930,369	3,129,933	3,058,719
1,641,493	1,739,638	1,734,836	1,764,385	1,905,570	2,039,009
45,861	55,816	49,196	49,590	44,846	46,994
554,626	567,541	591,980	600,098	603,955	624,226
2,241,980	2,362,995	2,376,012	2,414,073	2,554,371	2,710,229
648,214	575,678	502,325	516,296	575,562	348,490
24,942	11,856	25,632	77,501	83,352	66,848
(502,283)	(482,854)	(462,249)	(346,422)	(379,567)	(357,528)
(477,341)	(470,998)	(436,617)	(268,921)	(296,215)	(290,680)
170,873	104,680	65,708	247,375	279,347	57,810
598,458	441,300	135,885	122,454	204,681	-
(22,092)	(23,448)	(22,800)	(22,270)	(23,371)	(22,747)
<b>\$ 747,239</b>	<b>\$ 522,532</b>	<b>\$ 178,793</b>	<b>\$ 347,559</b>	<b>\$ 460,657</b>	<b>\$ 35,063</b>

# City of Charlotte, Michigan

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	1999	2000	2001	2002
General Fund:				
Reserved	\$ 2,344	\$ 28,649	\$ 27,277	\$ 27,098
Unreserved	<u>1,215,415</u>	<u>1,193,068</u>	<u>1,351,184</u>	<u>1,860,717</u>
Total General Fund	<b><u>\$ 1,217,759</u></b>	<b><u>\$ 1,221,717</u></b>	<b><u>\$ 1,378,461</u></b>	<b><u>\$ 1,887,815</u></b>
All other governmental funds:				
Reserved	\$ 5,721	\$ 5,004	\$ -	\$ 2,205
Unreserved, reported in:				
Special Revenue Funds	1,019,344	592,792	739,130	977,365
Capital Project Funds	<u>-</u>	<u>184,350</u>	<u>557,368</u>	<u>440,506</u>
Total all other governmental funds	<b><u>\$ 1,025,065</u></b>	<b><u>\$ 782,146</u></b>	<b><u>\$ 1,296,498</u></b>	<b><u>\$ 1,420,076</u></b>

**Fund Balances, Governmental Funds  
Last Ten Fiscal Years**

As of June 30

2003	2004	2005	2006	2007	2008
\$ 141,700	\$ 191,642	\$ 150,598	\$ 163,656	\$ 161,392	\$ 136,346
1,818,495	1,351,022	1,316,667	1,318,245	1,510,437	1,594,983
<b>\$ 1,960,195</b>	<b>\$ 1,542,664</b>	<b>\$ 1,467,265</b>	<b>\$ 1,481,901</b>	<b>\$ 1,671,829</b>	<b>\$ 1,731,329</b>
\$ 6,204	\$ 9,894	\$ 18,722	\$ 20,971	\$ 26,184	\$ 32,001
941,315	989,534	1,176,647	1,422,192	1,237,256	1,188,888
-	-	-	-	-	1,780,521
<b>\$ 947,519</b>	<b>\$ 999,428</b>	<b>\$ 1,195,369</b>	<b>\$ 1,443,163</b>	<b>\$ 1,263,440</b>	<b>\$ 3,001,410</b>



# City of Charlotte, Michigan

	1999	2000	2001
<b>Revenue</b>			
Property taxes	\$ 1,947,526	\$ 1,888,394	\$ 2,063,429
Special assessments	-	-	-
Licenses and permits	40,342	92,777	96,282
Intergovernmental	1,972,494	1,616,892	1,555,958
State and local sources	-	-	-
Federal grants	-	-	-
Charges for services	386,857	266,113	218,713
Fines and forfeitures	56,216	33,421	42,392
Other	313,923	215,428	207,958
Total revenue	4,717,358	4,113,025	4,184,732
<b>Expenditures</b>			
Current:			
General government	48,662	109,644	88,372
Public safety	1,928,725	2,158,711	2,387,105
Public works	1,450,330	1,840,441	1,580,324
Recreation and culture	111,776	-	-
Community and economic development	874,140	337,006	234,157
Capital outlay	-	-	-
Debt service principal	39,104	39,964	31,312
Debt service interest	9,470	6,620	4,410
Total expenditures	4,462,207	4,492,386	4,325,680
<b>Excess of Revenue Over (Under) Expenditures</b>	255,151	(379,361)	(140,948)
<b>Other Financing Sources (Uses)</b>			
Proceeds from long-term debt	-	-	723,975
Sale of fixed assets	204,675	55,034	126,000
Transfers in	672,451	408,548	499,500
Transfers out	(826,595)	(414,271)	(537,431)
Total other financing sources	50,531	49,311	812,044
<b>Extraordinary Item</b>	(70,175)	-	-
<b>Net Change in Fund Balance</b>	235,507	(330,050)	671,096
<b>Fund Balance - Beginning of year</b>	2,098,406	2,333,913	2,003,863
<b>Fund Balance - End of year</b>	<u>\$ 2,333,913</u>	<u>\$ 2,003,863</u>	<u>\$ 2,674,959</u>
Debt service as a percentage of noncapital expenditures	1.10%	1.05%	0.83%

Notes: Years 1999 - 2003 presented in pre-GASB 34 implementation format

## Changes in Fund Balances, Governmental Funds Last Ten Fiscal Years

Year Ended June 30

2002	2003	2004	2005	2006	2007	2008
\$ 2,341,020	\$ 2,473,208	\$ 2,500,705	\$ 2,648,761	\$ 2,742,872	\$ 2,939,421	\$ 3,083,511
-	-	33,043	27,958	22,793	14,256	14,775
66,440	70,640	124,241	59,018	55,985	90,065	115,929
1,589,887	1,642,310	-	-	-	-	-
-	-	1,525,538	1,638,075	1,770,652	1,496,886	1,970,670
-	-	200,333	187,685	-	506,027	164,068
253,258	231,706	273,456	207,947	210,051	229,701	273,285
29,039	29,270	33,293	29,075	29,207	31,532	33,183
205,655	812,942	256,123	229,674	195,088	383,706	310,877
4,485,299	5,260,076	4,946,732	5,028,193	5,026,648	5,691,594	5,966,298
108,591	792,475	528,737	605,052	595,040	550,204	603,192
2,378,798	2,378,867	2,307,638	2,405,193	2,496,011	2,511,489	3,885,138
2,131,877	1,971,359	1,100,758	1,011,859	1,045,120	1,581,050	1,258,963
-	-	155,220	168,718	154,971	175,392	249,435
226,720	376,863	177,282	113,200	143,715	657,815	337,074
-	-	1,050,552	484,274	212,746	83,404	688,516
65,566	95,102	75,000	80,000	80,000	90,000	117,745
35,592	68,429	65,235	62,155	58,885	55,406	51,512
4,947,144	5,683,095	5,460,422	4,930,451	4,786,488	5,704,760	7,191,575
(461,845)	(423,019)	(513,690)	97,742	240,160	(13,166)	(1,225,277)
764,503	-	-	-	-	-	3,000,000
-	-	-	-	-	-	-
303,607	278,011	316,242	302,814	339,686	430,556	323,912
(271,139)	(255,169)	(292,794)	(280,014)	(317,416)	(407,185)	(301,165)
796,971	22,842	23,448	22,800	22,270	23,371	3,022,747
297,806	-	-	-	-	-	-
632,932	(400,177)	(490,242)	120,542	262,430	10,205	1,797,470
2,674,959	3,307,891	3,032,334	2,542,092	2,662,634	2,925,064	2,935,269
<b>\$ 3,307,891</b>	<b>\$ 2,907,714</b>	<b>\$ 2,542,092</b>	<b>\$ 2,662,634</b>	<b>\$ 2,925,064</b>	<b>\$ 2,935,269</b>	<b>\$ 4,732,739</b>
2.09%	2.96%	3.28%	3.30%	3.13%	2.66%	2.67%

## **Revenue Capacity**

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These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

# City of Charlotte, Michigan

## Taxable Value and Actual Value of Taxable Property Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Taxable Value by Property Type					Tax Rate (Mills)	Estimated Actual Value	Taxable Value as a Percentage of Actual	
		Real Property				Personal Property				Total Value
		Residential	Commercial	Industrial						
1998	1999	\$ 75,387,600	\$ 24,756,700	\$ 8,745,600	\$ 16,880,500	\$ 125,770,400	14.5270	\$ 271,790,400	46.27	
1999	2000	78,487,100	25,210,800	8,985,400	17,849,100	130,532,400	13.6270	289,232,600	45.13	
2000	2001	82,934,900	28,476,700	9,401,700	16,238,900	137,052,200	13.6354	311,911,800	43.94	
2001	2002	88,124,400	34,928,400	10,704,800	19,604,500	153,362,100	13.6423	347,415,400	44.14	
2002	2003	94,504,600	43,511,800	10,644,000	20,600,100	169,260,500	13.6462	388,903,800	43.52	
2003	2004	100,636,600	43,820,200	10,773,100	19,897,500	175,127,400	13.6481	432,925,600	40.45	
2004	2005	108,569,100	45,344,800	10,363,900	19,095,200	183,373,000	13.4170	464,476,200	39.48	
2005	2006	117,280,300	45,897,900	11,137,800	22,141,200	196,457,200	13.4170	527,849,200	37.22	
2006	2007	126,326,300	48,195,100	11,090,100	21,936,400	207,547,900	13.4173	559,869,452	37.07	
2007	2008	133,041,385	51,239,598	13,185,395	22,167,435	219,633,813	13.4346	552,753,596	39.73	

Note: Under Michigan law, the revenue base is referred to as "taxable value." This amount represents assessed value (50 percent of true cash value), limited for each property by the lower of 5 percent or inflation.

Taxes levied in a particular "tax year" become revenue of the subsequent fiscal year.

Source: Treasurer, City of Charlotte

## Direct and Overlapping Property Tax Rates Last Ten Fiscal Years

Note: Michigan law restricts the maximum millage that may be levied by the City without a vote of our residents at 14.2913 mills for general operations.

# City of Charlotte, Michigan

## Principal Property Taxpayers June 30, 2008

Taxpayer	2008	Percentage of Total	1998	Percentage of Total	1998 Rank
	Taxable Value				
1 Owens-Illinois Glass Container	\$ 7,254,917	3.30	\$ 3,068,100	14.29	4
2 Spartan Motors	6,447,737	2.94	5,258,500	4.36	1
3 Meijer, Inc	5,687,415	2.59	-	-	-
4 Wollin Products	4,643,653	2.11	-	-	-
5 T&WA of Lansing LLC	4,145,071	2.00	-	-	-
6 Consumers Energy	3,929,755	1.79	3,414,400	2.83	2
7 Wal-Mart	3,418,885	1.56	-	-	-
8 Linn Products	3,220,084	1.47	-	-	-
9 Legacy Parke Partners LLC	2,104,653	0.96	-	-	-
10 1023 Group LLC	1,306,483	0.59	-	-	-
Owens Brockway Glass	-	-	3,068,100	2.55	3
General Aluminum Products, Inc.	-	-	2,728,700	2.26	5
Felpausch	-	-	1,154,100	0.96	6
Butternut Apartments	-	-	868,100	0.72	7
Charlotte Plaza Association	-	-	820,900	0.68	8
Wolohan Lumber	-	-	733,900	0.61	9
H & L Charlotte	-	-	650,600	0.54	10

Note: In 1998, Owens-Illinois Glass Container was listed as two separate entities. For comparison they have been combined above.

Source: Treasurer, City of Charlotte

# City of Charlotte, Michigan

## Property Tax Levies and Collections Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Total Levy	Current Collections	Percent Collected	Delinquent Collections	Total Tax Collections	Percent of Levy Collected
1998	1999	\$ 1,815,328	\$ 1,745,565	96.16	\$ 67,222	\$ 1,812,787	99.86
1999	2000	1,857,584	1,776,857	95.65	73,748	1,850,605	99.62
2000	2001	2,009,531	1,881,107	93.61	86,106	1,967,213	97.89
2001	2002	2,203,973	2,093,338	94.98	56,723	2,150,061	97.55
2002	2003	2,288,957	2,178,869	95.19	96,088	2,274,957	99.39
2003	2004	2,537,236	2,438,280	96.10	87,553	2,525,833	99.55
2004	2005	2,608,282	2,491,117	95.51	110,407	2,601,524	99.74
2005	2006	2,764,603	2,653,564	95.98	88,988	2,742,552	99.20
2006	2007	2,914,966	2,773,843	95.16	137,439	2,911,282	99.87
2007	2008	3,064,999	2,892,417	94.37	137,919	3,030,336	98.87

## **Debt Capacity**

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These schedules contain information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.



# City of Charlotte, Michigan

	1999	2000	2001	2002
<b>Governmental Activities</b>				
General obligation bonds	\$ 70,000	\$ -	\$ 735,000	\$ 1,475,000
Loans payable	-	-	-	11,037
Land contract	70,853	53,045	34,138	14,065
Economic development agreement	-	-	-	-
Total	140,853	53,045	769,138	1,500,102
<b>Business-type Activities</b>				
General obligation bonds	2,015,000	1,895,000	1,765,000	1,630,000
Loans payable	211,879	128,477	74,440	10,000
Revenue bonds	-	8,032,675	7,862,461	7,682,354
Total	2,226,879	10,056,152	9,701,901	9,322,354
Total debt of the government	<b>\$ 2,367,732</b>	<b>\$ 10,109,197</b>	<b>\$ 10,471,039</b>	<b>\$ 10,822,456</b>
Total residential personal income	\$ 2,538,707	\$ 2,668,226	\$ 2,803,549	\$ 2,860,581
Ratio of total debt to personal income	93.27%	378.87%	373.49%	378.33%
Total population*	8,083	8,389	8,389	8,389
Total debt per capita	\$ 293	\$ 1,205	\$ 1,248	\$ 1,290

Note: 1998-1999 population based on 1990 census figures; 2000-2008 population based on 2000 census figures

N/A = Information not available

**Ratios of Outstanding Debt  
Last Ten Fiscal Years**

2003	2004	2005	2006	2007	2008
\$ 1,405,000	\$ 1,330,000	\$ 1,250,000	\$ 1,170,000	\$ 1,080,000	\$ 3,990,000
-	-	-	-	-	-
-	-	-	-	-	-
<u>114,491</u>	<u>242,983</u>	<u>229,102</u>	<u>183,204</u>	<u>165,330</u>	<u>147,456</u>
1,519,491	1,572,983	1,479,102	1,353,204	1,245,330	4,137,456
1,485,000	1,330,000	1,165,000	990,000	805,000	610,000
-	-	-	-	-	-
<u>7,492,247</u>	<u>7,292,140</u>	<u>7,077,033</u>	<u>6,799,449</u>	<u>6,548,164</u>	<u>6,281,879</u>
<u>8,977,247</u>	<u>8,622,140</u>	<u>8,242,033</u>	<u>7,789,449</u>	<u>7,353,164</u>	<u>6,891,879</u>
<b><u>\$ 10,496,738</u></b>	<b><u>\$ 10,195,123</u></b>	<b><u>\$ 9,721,135</u></b>	<b><u>\$ 9,142,653</u></b>	<b><u>\$ 8,598,494</u></b>	<b><u>\$ 11,029,335</u></b>
\$ 2,927,320	\$ 3,064,536	\$ 3,083,449	\$ 3,136,018	N/A	N/A
358.58%	332.68%	315.28%	291.54%	N/A	N/A
8,389	8,389	8,389	8,389	8,389	8,389
\$ 1,251	\$ 1,215	\$ 1,159	\$ 1,090	\$ 1,025	\$ 1,315

## City of Charlotte, Michigan

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Fiscal Year	Tax-limited General Obligation Bonds (LTGO)	Tax- supported Bonds (UTGO)	Less Pledged Debt Service Funds	Other General Obligation Debt	Net General Bonded Debt
1999	\$ 70,000	-	-	\$ 70,853	\$ 140,853
2000	-	-	-	53,045	53,045
2001	735,000	-	-	34,138	769,138
2002	1,475,000	-	-	25,102	1,500,102
2003	1,405,000	-	-	114,491	1,519,491
2004	1,330,000	-	-	242,983	1,572,983
2005	1,250,000	-	-	229,102	1,479,102
2006	1,170,000	-	-	183,204	1,353,204
2007	1,080,000	-	-	165,330	1,245,330
2008	3,990,000	-	-	147,456	4,137,456

(1) Estimates not available; amount from 1990 census used.

(2) Estimates not available; amount from 2000 census used.

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**Ratios of General Bonded Debt Outstanding  
Last Ten Fiscal Years**

	Taxable	Debt as a Percentage of Taxable	Population	Debt per Capita
	Value	Value		
\$	120,532,400	0.12	8,083 (1)	17
	125,770,400	0.04	8,389 (2)	6
	130,532,400	0.59	8,389 (2)	92
	137,052,200	1.09	8,389 (2)	179
	153,362,100	0.99	8,389 (2)	181
	169,260,500	0.93	8,389 (2)	188
	175,127,400	0.84	8,389 (2)	176
	183,373,000	0.74	8,389 (2)	161
	207,547,900	0.60	8,389 (2)	148
	219,554,135	1.88	8,389 (2)	493

# City of Charlotte, Michigan

## Direct and Overlapping Governmental Activities Debt June 30, 2008

Governmental Unit	Debt Outstanding	Estimated Percent Applicable	Estimated Share of Overlapping Debt
Eaton County	\$ 28,740,249	6.45	\$ 1,853,746
Eaton Intermediate School District	1,635,000	8.31	135,869
Charlotte Public Schools	<u>59,963,943</u>	41.83	<u>25,082,917</u>
Total overlapping debt	90,339,192		27,072,532
Direct City debt	<u>4,137,456</u>	100.00	<u>4,137,456</u>
Total direct and overlapping debt	<u><b>\$ 94,476,648</b></u>		<u><b>\$ 31,209,988</b></u>

# City of Charlotte, Michigan

## Pledged Revenue Coverage Last Ten Fiscal Years

	Water and Sewer Revenue Bonds						
Fiscal	Gross	Applicable	Net	Debt Service			Coverage
Year	Revenues	Expenses	Revenues	Principal	Interest	Total	(Percent)
1999	\$ 1,718,373	\$ 1,367,442	\$ 350,931	\$ 115,000	\$ 111,389	\$ 226,389	155.01
2000	2,726,734	1,619,150	1,107,584	120,000	445,172	565,172	195.97
2001	3,216,643	1,447,704	1,768,939	310,000	523,723	833,723	212.17
2002	3,125,906	1,599,276	1,526,630	297,284	187,788	485,072	314.72
2003	2,860,608	1,641,493	1,219,115	335,107	502,283	837,390	145.59
2004	2,906,173	1,739,638	1,166,535	355,107	482,854	837,961	139.21
2005	2,869,560	1,734,836	1,134,724	380,107	462,249	842,356	134.71
2006	2,965,448	1,764,385	1,201,063	452,584	346,422	799,006	150.32
2007	3,167,495	1,905,570	1,261,925	436,285	379,567	815,852	154.68
2008	3,061,303	2,039,009	1,022,294	461,285	357,528	818,813	124.85

# City of Charlotte, Michigan

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	1999	2000	2001	2002
<b>Calculation of Debt Limit</b>				
State equalized valuation	\$ 144,616,300	\$ 155,955,900	\$ 173,707,700	\$ 173,707,700
10% of taxable value	14,461,630	15,595,590	17,370,770	17,370,770
<b>Calculation of Debt Subject to Limit</b>				
Total debt	2,079,279	10,109,197	10,471,039	10,812,726
Less debt not subject to limit - Revenue bonds	-	8,032,675	9,627,461	9,312,354
Net debt subject to limit	2,079,279	2,076,522	843,578	1,500,372
<b>Legal Debt Margin</b>	12,382,351	13,519,068	16,527,192	15,870,398
<b>Net Debt Subject to Limit as Percent of Debt Limit</b>	16.79%	15.36%	5.10%	9.45%

**Legal Debt Margin  
Last Ten Fiscal Years**

2003	2004	2005	2006	2007	2008
\$ 194,451,900 19,445,190	\$ 216,526,900 21,652,690	\$ 232,238,100 23,223,810	\$ 263,924,600 26,392,460	\$ 279,934,726 27,993,473	\$ 276,376,798 27,637,680
10,382,247	10,195,123	9,721,135	9,142,653	8,598,494	11,029,335
<u>8,977,247</u>	<u>8,622,140</u>	<u>8,242,033</u>	<u>7,789,449</u>	<u>7,353,164</u>	<u>6,281,879</u>
1,405,000	1,572,983	1,479,102	1,353,204	1,245,330	4,747,456
18,040,190	20,079,707	21,744,708	25,039,256	26,748,143	22,890,224
7.79%	7.83%	6.80%	5.40%	4.66%	20.74%



## **Demographics and Economic Information**

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These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

# City of Charlotte, Michigan

## Demographic and Economic Statistics Last Ten Fiscal Years

Fiscal Year	Population		Personal Income (in thousands)*	Per Capita Personal Income	Unemployment Rate**
1999	8,083	(1)	\$ 2,668,226	330	3.30
2000	8,389	(2)	2,803,849	334	3.20
2001	8,389	(2)	2,860,581	341	3.20
2002	8,389	(2)	2,927,320	349	3.20
2003	8,389	(2)	3,042,007	363	4.00
2004	8,389	(2)	3,078,203	367	4.70
2005	8,389	(2)	3,112,418	371	6.20
2006	8,389	(2)	3,267,409	389	5.20
2007	8,389	(2)	N/A	-	6.20
2008	8,389	(2)	N/A	-	6.70

(1) Estimates not available; amount from 1990 Census

(2) Estimates not available; amount from 2000 Census

N/A = Information not available

\* Number represents all of Eaton County

\*\* Represents all of Eaton County as of June 2008

Source: U.S. Department of Commerce - Bureau of Economic Analysis website

# City of Charlotte, Michigan

## Principal Employers June 30, 2008

Employer	2006		2007		2008	
	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total
1 Spartan Motors	740	21.80	1,062	27.64	1,400	34.20
2 Charlotte Public Schools	510	15.02	502	13.07	470	11.48
3 Hayes Green Beach Memorial Hospital	477	14.05	490	12.75	458	11.19
4 County of Eaton	400	11.78	400	10.41	380	9.28
5 Wal-Mart Stores, Inc.	291	8.57	286	7.44	280	6.84
6 Meijer, Inc.	280	8.25	275	7.16	275	6.72
7 Thomas Redmer Group	-	-	240	6.25	225	5.50
8 Eaton Intermediate School District	210	6.19	210	5.47	223	5.45
9 Peckham Vocational Industries	190	5.60	200	5.21	192	4.69
10 Owens-Brockway Glass Container, Inc.	188	5.54	177	4.61	190	4.64
11 Linn Products, Inc.	109	3.21	-	-	-	-

Information for years prior to fiscal year 2005-2006 is not available.

Source: Treasurer, City of Charlotte

## **Operating Information**

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These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

## City of Charlotte, Michigan

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Function/Program	1999	2000	2001	2002
General government:				
City manager	2	2	2	2
Clerk	2	2	2	2
Assessor	1	1	1	1
Finance and treasury	3	3	3	3
Public safety:				
Police	19	20	20	20
Fire - Full-time	6	7	7	7
Fire - Volunteer	27	25	25	24
Building inspection	-	-	-	1
Public works:				
DPW	14	16	14	13
Water and sewer	6	6	6	8
Community and economic development	1	1	1	1
Total	<b>81</b>	<b>83</b>	<b>81</b>	<b>82</b>

**Full-time Equivalent Government Employees  
Last Ten Fiscal Years**

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
2	2	2	2	2	2
2	2	2	2	2	2
1	1	1	1	1	1
3	3	3	3	3	3
21	21	21	21	19	19
7	7	7	7	7	7
25	24	26	27	29	25
1	1	1	1	1	1
13	13	13	13	12	13
8	8	8	8	8	8
1	1	1	1	1	1
<u>84</u>	<u>83</u>	<u>85</u>	<u>86</u>	<u>85</u>	<u>82</u>

## City of Charlotte, Michigan

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Function/Program	1999	2000	2001	2002
Election data:				
Registered voters	5,884	5,665	5,840	5,959
Voters (at the polls or absentee)	2,486	1,414	3,281	1,345
Percent voting	42.25%	24.96%	56.18%	22.57%
Police:				
Physical arrests	717	719	800	692
Traffic violations	1,581	1,473	1,936	2,020
Investigations	1,063	1,236	3,058	1,114
Fire:				
Fire runs	389	446	403	397
Emergency medical runs	122	134	117	129
Inspections	231	163	110	212
Public works - Miles of street resurfaced	1.24	0.92	1.81	0.43
Parks and recreation - Recreation program attendance	N/A	N/A	N/A	N/A
Water:				
Number of customers billed	3,300	3,350	3,353	3,804
Total daily consumption	1,090,000	1,090,000	1,033,500	1,064,000
Average consumption per user	331	360	397	280
Sewer - Average daily sewage treatment	1,100,000	1,100,000	971,400	975,000

N/A = Information not available

**Operating Indicators  
Last Ten Fiscal Years**

2003	2004	2005	2006	2007	2008
5,857	5,579	5,908	6,033	6,108	6,144
2,528	1,206	3,937	1,393	837	857
43.16%	21.62%	66.64%	23.09%	13.70%	13.95%
745	775	758	668	642	638
1,414	1,253	1,133	928	1,227	1,179
2,390	3,204	2,730	2,626	2,642	2,460
373	483	541	550	507	472
132	176	204	219	192	212
215	153	162	96	105	135
1.13	-	-	0.73	-	0.50
N/A	N/A	N/A	60	56	56
3,593	3,614	3,614	3,703	3,716	3,763
967,806	967,806	967,806	976,435	1,069,000	1,090,000
270	268	268	264	288	290
964,450	964,450	978,422	963,250	944,000	941,000



# City of Charlotte, Michigan

Function/Program	1999	2000	2001	2002
Police:				
Stations	1	1	1	1
Patrol units	4	5	5	7
Fire:				
Stations	1	1	1	1
Fire response vehicles	7	7	7	7
Emergency response vehicles	-	-	-	-
Public works:				
Streets (miles):				
Major streets	11.33	11.33	11.33	11.33
Local streets	23.55	24.38	24.38	24.38
Sidewalks				
Streetlights	48	353	353	353
Traffic signals	5	5	6	6
Parks and recreation:				
Acreage	180	180	199	199
Developed parks/playgrounds	7	7	7	7
Developed fields (soccer, baseball, etc.)	-	-	-	-
Libraries - Branches	1	1	1	1
Water:				
Mains (miles)	46	47	51	51
Fire hydrants	353	360	397	400
Storage capacity	233,090	233,090	233,090	460,800
Sewer:				
Miles of sanitary sewers	38	39	40	40
Miles of storm sewers	30	30	30	30
Treatment capacity	1,200,000	1,200,000	1,200,000	1,800,000

**Capital Asset Statistics  
Last Ten Fiscal Years**

2003	2004	2005	2006	2007	2008
1 7	1 7	1 8	1 10	1 10	1 10
1 7 1	1 7 1	1 8 1	1 8 1	1 8 1	1 8 1
11.45 26.05	11.45 26.05	11.45 26.26	11.41 26.26	11.41 26.26	11.91 25.91
353 6	353 7	353 7	353 7	353 7	373 7
199 7 - 1	199 7 - 1	199 7 - 1	199 8 - 1	199 8 - 1	199 8 - 1
52 413 460,800	52 429 1,150,000	52 431 1,150,000	52 433 1,150,000	52 433 1,150,000	52 433 1,150,000
41 31 1,800,000	41 31 1,800,000	41 31 1,800,000	41 31 1,800,000	41 31 1,800,000	41 31 1,800,000

# **City of Charlotte, Michigan**

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**Report to the City Council  
June 30, 2008**



Plante & Moran, PLLC  
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1111 Michigan Ave.  
East Lansing, MI 48823  
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Fax: 517.332.8502  
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To the City Council  
City of Charlotte, Michigan

We have recently completed our audit of the financial statements of the City of Charlotte, Michigan (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, informational comments, and other recommendations.

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Report on Internal Control	1-2
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Informational - Legislative Matters	7-12
Recommendations	13-14

We are grateful for the opportunity to be of service to the City of Charlotte, Michigan. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

November 10, 2008

## Report on Internal Control

November 10, 2008

To the City Council  
City of Charlotte, Michigan

Dear Council Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the City's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Charlotte, Michigan as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

November 10, 2008

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

**Fixed Asset and Accounts Payable Cutoff**

During our testing of fixed asset additions, we noted that the construction progress billing for the new fire station was not recorded for the work performed in June. Upon further review, the reason for the omission was that the invoice was recorded based on the invoice date, and not the date that the services were provided, as is required by GAAP. We recommend that invoices received after period end be evaluated for cutoff based on the date the goods or service are received and not the invoice date. This will ensure all invoices are being recorded in the appropriate accounting period and that the City's assets, liabilities, and expenses are properly stated.

We are grateful for the opportunity to be of service to the City. Should you wish to discuss any of the items included in the report, we would be happy to do so.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "Mary J. Schafer", written in a cursive style.

Mary J. Schafer, CPA  
Partner

## Results of the Audit

November 10, 2008

To the Honorable Mayor and  
Members of the City Council  
City of Charlotte, Michigan

We have audited the financial statements of the City of Charlotte, Michigan for the year ended June 30, 2008 and have issued our report thereon dated November 10, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated July 24, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Charlotte, Michigan. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

## **Significant Audit Findings**

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Charlotte are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2008.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. The most sensitive estimates in the City's financial statements include its determination, based on City Council's guidance, to not record a liability related to the Lincoln Park litigation, and the actuarial estimates surrounding the defined benefit plan.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements can be found in Note 14 related to the ongoing litigation and uncertainty surrounding Lincoln Park.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were misstatements detected as a result of audit procedures and corrected by management which were material, either individually or in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management:

- An entry on the fund-based statements to record accounts payable and expenditures related to the construction project, and the resulting entry on the full accrual statements to record the related capital asset addition.



To the Honorable Mayor and  
Members of the City Council  
City of Charlotte, Michigan

November 10, 2008

***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management's Representations***

We have requested certain representations from management that are included in the management representation letter dated November 10, 2008.

***Management's Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

There were no other audit findings or issues.

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

To the Honorable Mayor and  
Members of the City Council  
City of Charlotte, Michigan

November 10, 2008

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility relates to the City's financial statements and other information as identified in the auditor's report. We have no responsibility for any other information that may be included in documents containing those audited statements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. We have read and applied certain limited procedures to the management's discussion and analysis and retirement system schedules of funding progress, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

This information is intended solely for the use of those charged with governance and management of the City of Charlotte, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in cursive script, reading "Mary J. Schafer".

Mary J. Schafer, CPA  
Partner

## **Informational - Legislative Matters**

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### **Revenue Sharing**

The governor released her proposal of the State's fiscal year 2009 budget (for the year ended September 30, 2009) originally in February 2008. Over the course of budget deliberations in the spring and early summer, the Legislature further debated the level of the revenue-sharing funding, resulting in a compromise by the Senate and House to fund revenue-sharing equal to the projected fiscal year 2008 (fiscal year ended September 30, 2008) amounts, plus provide an increase of 2 percent of the statutory portion of revenue sharing received in FY 2007. This proposal was presented to the governor on July 25, and enacted in mid-August.

Here is a summary (in millions of dollars) of the revenue-sharing budget submitted to the governor:

	FY 2007 Actual	FY 2008 Projected	FY 2009 Projected	% change
Cities, Villages and Townships:				
Constitutional	\$ 665.980	\$ 682.780	\$ 675.992	-0.99%
Statutory	404.920	392.050	406.933	3.80%
total to CVT's	1,070.900	1,074.830	1,082.925	0.75%
Counties (statutory)	-	-	2.394	n/a
Total revenue sharing	\$ 1,070.900	\$ 1,074.830	\$ 1,085.319	0.98%

While the projection is for an overall increase of 0.75 percent (for cities, villages, and townships), the impact will not be evenly distributed between all local units. Remember, the 2 percent increase is for the statutory portion only - not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in FY 2009 to equal the total of constitutional and statutory revenue sharing received in FY 2008, plus an additional payment equal to 2 percent of the FY 2007 statutory revenue sharing received by the local unit. That may mean that for those units (primarily townships) that now receive no statutory revenue sharing, total revenue sharing projected for FY 2009 will be identical to the amounts received in FY 2008. We are awaiting a final distribution table from the Michigan Department of Treasury.

The governor's proposed budget also included \$2.4 million to restore state revenue-sharing payments for the six qualifying counties that will exhaust their revenue-sharing reserve funds in fiscal year 2008/2009. As you may remember, a reserve fund was created for each county in 2005 when the State eliminated counties from the revenue-sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue-sharing program. Prior to their elimination from the revenue-sharing program in 2005, counties statewide received approximately \$182 million annually.

To the Honorable Mayor and  
Members of the City Council  
City of Charlotte, Michigan

November 10, 2008

### ***Revenue Sharing (Continued)***

It is encouraging that this budget funds revenue sharing at a higher level than last year. As counties have started to come back into the formula, the legislature has budgeted this as an additional payment, rather than one that reduces distributions to the other local units of government. To a great extent, however, actual revenue-sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted. Please remember to remind your state representatives of the importance of extending this legislation.

### ***Property Tax Developments***

The front page story several months ago is now old news. For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. How it will actually play out in each community and over what period of time remains to be seen. While each community will need to carefully determine the impact of the current environment on its budget, there are also several pieces of legislation in Lansing that will impact property taxes going forward. Examples include the following:

- House Bill 4215 (Public Act 96 of 2008) allows property owners to obtain two principal residence exemptions in certain situations. The bill was designed for situations where a homeowner has purchased a new home and is unable to sell the existing home. The dual exemption only applies if certain conditions are met (i.e., the property previously occupied is for sale, not occupied, not leased or available for lease, etc.).
- Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have re-learned in recent months, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected, and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it re-connects with market values).

***Property Tax Developments (Continued)***

Fairly or not, this year, many property owners said it did not feel right when they saw their taxable value increase by inflation when market value did not. This has led to a discussion as to whether a third variable, called “change in market value,” needs to be added to the Proposal A formula. In what some are calling a “super cap,” the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would be the lesser of three components: inflation, change in market value, or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value - there would be no annual increase. To date, a proposal to accomplish this change has not moved through the Legislature. A change of this nature would impact local government budgets.

- As part of the changes to the single business tax last year and the introduction of the Michigan business tax, changes were also made to the calculation of tax rates applicable to industrial and commercial personal property taxes. As advertised, industrial personal property taxpayers received a reduction of the school operating mills (up to 18 mills) and the six mill state education tax. Commercial personal property taxpayers received a reduction of up to 12 school operating mills. However, if your community has a school district with “hold harmless” school mills, you must add back any hold harmless millage prior to computing the total mills to be levied. This may generate questions from commercial and industrial taxpayers.
- A Michigan Supreme Court case has changed how local governments can treat public service improvements by developers. Leading up to the court case, as private property owners or developers installed public service improvements (i.e., such as street lights, water and sewer lines, etc.) there was normally an increase in their property tax assessment. The Michigan Supreme Court upheld a Court of Appeals ruling that the installation of public service improvements does not constitute a taxable addition.

***Change in Investment Act***

Public Act 213 of 2007, adopted at the end of 2007, requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates

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### ***Recent Revisions to State Transportation Funding Program***

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund (MSF) to their Local Street Fund (LSF) at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent, including the adoption of an asset management process for the major and local street systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

In the current instructions to the Act 51 reports, MDOT has stipulated that these transfers from the MSF to the LSF will not be allowed after December 31, 2008, except to the extent matched by local revenues expended by the city or village of the major street system. It is unclear whether the actual legislation that allows this transfer (MCL Section 247.663(12) of PA 51 of 1951, as amended) is set to expire at the end of the year. Local governmental units should, however, be aware of this potential sunset and take appropriate action prior to December 31, 2008 to make transfers that are allowable through this date.

### ***FACT Act***

The Fair and Accurate Credit Transactions Act was passed in 2003, with final regulations published at the end of 2007. These FTC rules, and more specifically the Red Flag Rules encompassed in them, may be applicable to municipal utility systems. The rules, put in place as a measure to protect against identity theft, indicate that a “creditor” with a “covered account” must implement a written identify theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of a covered account or any existing covered account.

Under the rules, a creditor is defined very broadly, encompassing any entity that defers payment for goods and services, as defined under the Red Flag Rules. This most likely includes municipalities that “defer payments” by their utility customers when water, sewer, electric, gas, trash, and the like are sold to customers day-by-day but paid for at the end of the billing cycle.

The Act would require written policies and procedures to be put in place to identify and follow up on red flags. Red flags, just as an example, would be the presentation by the customer of suspicious personal information that is inconsistent with external sources or suspicious documents provided for identification that appear to be alerted. The regulations appear to be flexible so that each government would have the ability to design an identity theft program that is tailored to its particular operation, given its size, technology currently utilized, and the perceived risk of identity theft in its community.

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We encourage you to follow up with legal counsel if you believe this Act may apply to your governmental unit.

### ***Other Legislative Items***

- As part of Michigan's new "Planning Enabling Act," many local governments will now be required to prepare an annual "capital improvements program." This new requirement is effective September 1, 2008. According to Public Act 33 of 2008, a planning commission, after the adoption of a master plan, shall annually prepare a capital improvements program of public structures and improvements. The law does allow that if the planning commission is exempted from this requirement, the legislative body shall prepare and adopt a capital improvements program or delegate this responsibility to the administration of the local unit for the ultimate approval by the legislative body. The law provides that the capital improvement program report public structures and improvements that, in the community's judgment, will be needed or desirable within the next six years. The law also requires that the public structures and improvements included in the capital improvements program be prioritized. In general, Plante & Moran, PLLC strongly encourages the development of a capital plan. While the law is restricted to "public structures and improvements," we strongly encourage the inclusion of all capital assets - vehicles, machinery and equipment, office furnishing, etc. In addition, we feel the participation of the governing body (in addition to or instead of) the planning commission is good public policy.

This same public act added several other requirements of planning commissions, including annual reporting by the planning commission to the legislative body along with the mandatory creation of a master plan.

- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as "Public Act 20" which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.
- A bill is pending in the Michigan Legislature regarding retainages held by governmental units. Retainages are a common method used by local governments in procurement, particularly in the area of construction contracts. The law change focuses on reducing the retainage amount that a local government could require and stipulate the payment of interest on these monies among other provisions.
- Efforts continue in the wake of the *Bolt* case to provide a means for local units of government to engage in rate making to finance the cost of utility operations, particularly that of storm water. Senate Bill 1249 has been introduced to address the tests included in the *Bolt* decision on whether a charge is really a fee or a tax.



## **Recommendations**

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### **Reconciliation of Customer Receivable Subsidiary Ledger**

During our testing of customer accounts receivable, it was noted that a reconciliation of the customer receivable subsidiary ledger and the general ledger is only being performed at year end in preparation for the financial statement audit. This procedure would be most effective if it were performed on a monthly or quarterly basis. Identifying potential discrepancies between the customer receivable subsidiary ledger and the general ledger more frequently throughout the year would allow the City to resolve errors in billing more quickly and ensure that the customer receivables are accurately stated in the general ledger. We encourage the City to implement a reconciliation process between the customer receivable subsidiary ledger and general ledger on at least a quarterly basis.

### **Petty Cash and Segregation of Duties**

During our review of internal control documents completed by the City and in subsequent testing of the City's cash balances, it was noted that the City clerk is currently reimbursing herself from the petty cash account for allowable expenses that she incurs. Given that there are two individuals authorized to disburse petty cash, we recommend that the City clerk submit her expenses to the deputy clerk who can then review the expenses for appropriateness and provide the necessary reimbursement from the petty cash account.

Additionally, we noted that certain incompatible duties are performed by the same individuals within the finance department. While we understand that it is probably not economical for the appropriate level of segregation to exist at the City, and that there are other mitigating controls in place, we do recommend that the City continually consider certain duties be segregated from one another, namely cash collections from the reconciliation, review, and journal entry processes.

### **Incorrect Posting to General Ledger Accounts**

During our testing of two areas, accounts payable and capital assets, we noted that there were two manual entries that had expense classification errors, resulting in amounts being posted to incorrect general ledger accounts. While the result of these classification errors was a zero net effect on the financial statements, individually the errors skewed the respective account balances. We encourage the City to perform an analytical review of significant or unusual account balances on a quarterly basis in order to find and correct any potential errors or entries posted to incorrect accounts.

### **Information Technology Control Review**

A much more in-depth review of the City's information technology system occurred during the current year due to the new audit standards that were effective for the current fiscal year. Our review of the City's internal controls over the information technology system resulted in several recommendations that have been presented directly to management in a separate communication.